2011 annual report

ICBC

building trust. driving confidence.

profile

The Insurance Corporation of British Columbia (ICBC) is a provincial Crown corporation that provides universal compulsory auto insurance (Basic insurance) to drivers in British Columbia (BC), with rates regulated by the British Columbia Utilities Commission (BCUC). ICBC also sells Optional auto insurance in a competitive marketplace.

Our insurance products are available across BC through a network of independent brokers and claims services are provided at ICBC claims handling facilities located throughout the province. We also invest in road safety and loss management programs to reduce traffic-related deaths, injuries and crashes, auto crime, and fraud. In addition, we provide driver licensing, vehicle registration and licensing services, and fines collection on behalf of the provincial government at locations across the province.

vision

ICBC will be BC's preferred auto insurer, providing protection and peace of mind.

mission

We deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

values

In providing products and services, the following values guide our behaviour and decisions:

integrity — Our business is based on trust. We are honest, ethical, straightforward, and fair.

dedication to customers — We exist to serve our customers. We listen actively and are responsive to their needs.

accountability — We hold ourselves, and each other, accountable for our actions and the success of our business.

caring — We care about our customers' well-being and ensure they feel supported by treating them with dignity and respect. We care about each other's well-being and create an environment that promotes personal growth. We care about our communities by supporting road safety programs and being environmentally responsible.

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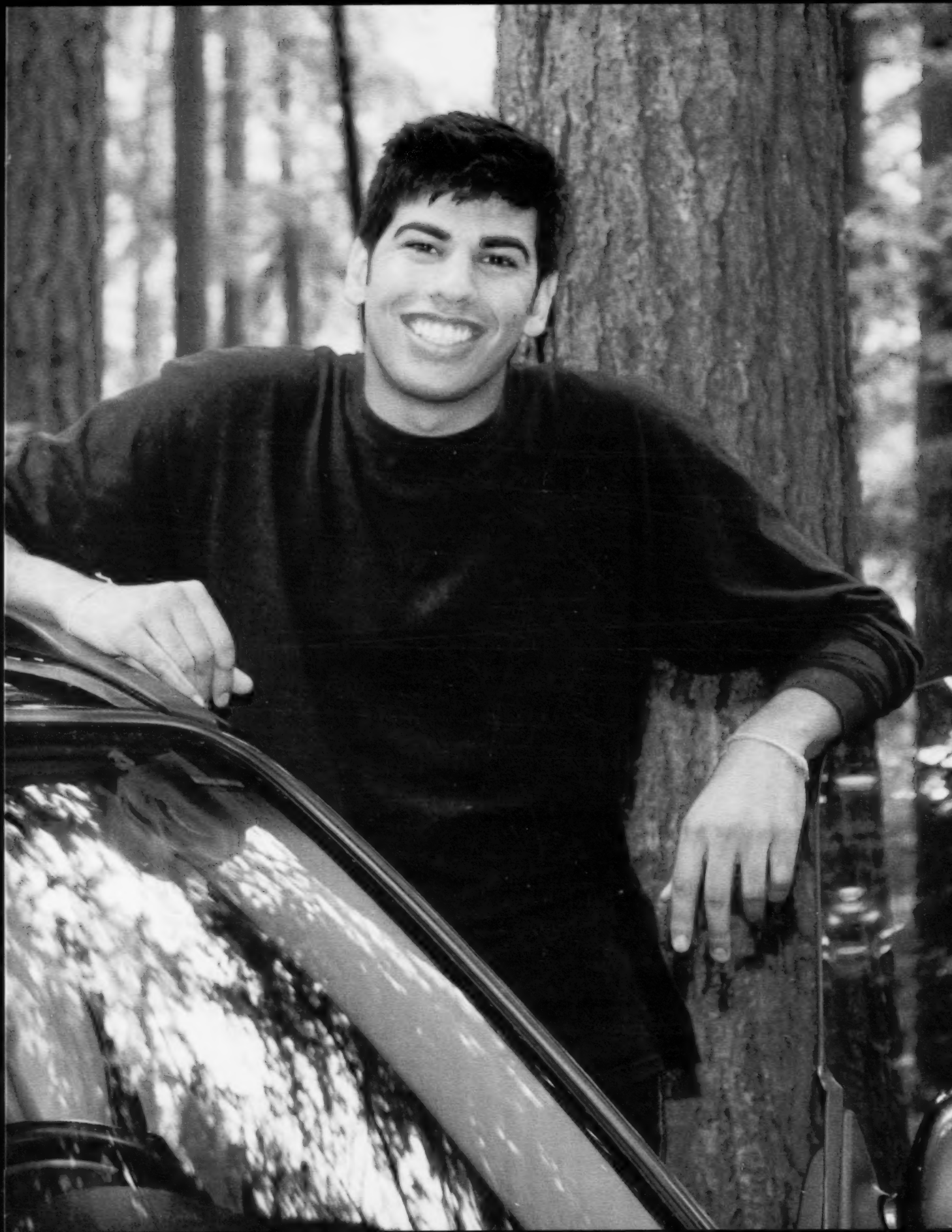


letter of transmittal and accountability statement

Minister of Finance and Deputy Premier
Minister Responsible for the Insurance Corporation of British Columbia

The 2011 Annual Report of the Insurance Corporation of British Columbia (ICBC) was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of ICBC for the 12 months ended December 31, 2011 in relation to the 2011 – 2013 Service Plan. The measures presented are consistent with ICBC's mandate and corporate strategy, and focus on aspects critical to the organization's performance.

As the Vice-Chair of ICBC's Board of Directors, I am responsible for ensuring internal controls are in place to ensure information is measured and reported accurately and in a timely fashion.

All significant assumptions, policy decisions, events and identified risks, as of December 31, 2011, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, the goal, objectives, strategies, measures or targets made since the 2011 – 2013 Service Plan was released and any significant limitations in the reliability of data are identified in the report.

On behalf of the Board of Directors and all ICBC employees, it is my pleasure to submit ICBC's Annual Report for the year ended December 31, 2011.

Sincerely,

T. Michael Porter
Vice-Chair of the Board of Directors

key financial and operating comparatives

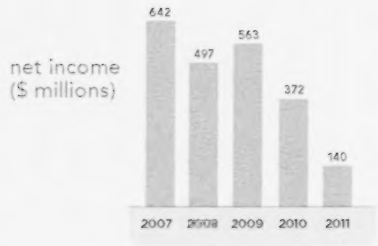
five year comparison[1] for the years ended December 31	2011	2010	2009	2008	2007
For the year ($000):					
Premiums earned	3,673,210	3,667,324	3,650,025	3,631,215	3,482,434
Service fees	50,352	54,628	58,807	69,174	65,949
Claims incurred during the year	2,880,130	2,754,077	2,648,193	2,646,191	2,646,360
Prior years' claims adjustments[2]	(14,392)	(2,039)	2,355	(136,447)	(33,779)
Claims services, road safety and insurance operating costs	497,465	505,923	488,735	457,726	450,787
Transformation Program (TP) expenses	31,645	34,775	–	–	–
Insurance premium taxes and commissions	457,437	446,015	432,017	429,011	407,022
Deferred premium acquisition cost adjustments[2]	59,924	31,180	2,807	(16,922)	(26,543)
Non-insurance expenses	112,692	110,139	104,258	103,840	92,935
Investment income	441,480	530,319	532,477	280,449	611,600
Net income	140,141	372,201	562,944	497,439	642,318
At year end ($000):					
Cash and investments[3]	11,476,238	11,577,928	11,129,061	10,056,546	9,641,452
Total assets	12,928,133	12,957,995	12,643,599	11,476,492	10,991,685
Equity:					
– Retained earnings	2,654,079	2,683,364	3,214,655	2,651,711	2,154,272
– Other components of equity[4]	272,395	515,723	402,160	99,671	278,975
Total equity	2,926,474	3,199,087	3,616,815	2,751,382	2,433,247
Autoplan policies earned[5]	3,321,000	3,281,000	3,225,000	3,193,000	3,108,000
Average premium ($)[6]	1,079	1,092	1,100	1,108	1,094
Claims reported during the year[7]	900,000	895,000	946,000	964,000	992,000
Loss ratio (%)[8]:					
– Current year (%)	87.2	84.1	81.3	81.4	84.7
– Prior years' claims adjustments (%)[2]	(0.4)	(0.1)	0.1	(3.8)	(1.0)
Loss ratio (%)	86.8	84.0	81.4	77.6	83.7
Expense ratio (%):					
– Insurance expense ratio (%)[9]	17.3	17.0	16.4	15.9	16.0
– Transformation Program expense ratio (%)	0.8	0.9	–	–	–
– Non-insurance expense ratio (%)	3.1	3.0	2.9	2.9	2.6
Expense ratio (%)	21.2	20.9	19.3	18.8	18.6

[1] *Financial information for 2011 was prepared based on International Financial Reporting Standards (IFRS) and 2010 information has been restated to IFRS for comparative purposes. Financial information for 2009 and before was prepared in accordance with pre-IFRS changeover Canadian generally accepted accounting principles (GAAP).*
[2] *( ) denotes a favourable adjustment, i.e., a reduction in expense.*
[3] *Includes investment properties.*
[4] *Formerly known as accumulated other comprehensive income under Canadian GAAP in 2007 to 2009.*
[5] *Annualized values have been used for policies with a term of less than 12 months.*
[6] *Average premium is based on premiums earned.*
[7] *Claims reported represent the number of claims reported against purchased insurance coverages.*
[8] *Loss ratio is based on current year claims and related costs and prior years' claims adjustments as a percentage of premiums earned.*
[9] *Insurance expense ratio is based on insurance operating costs as a percentage of premiums earned (excludes non-insurance costs, deferred premium acquisition costs (DPAC) and other unusual items).*

performance highlights

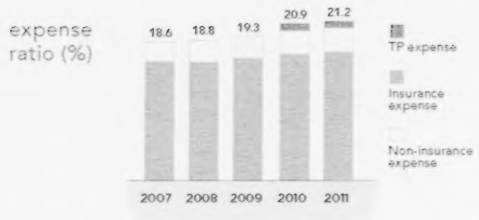
net income

In 2011, ICBC recorded net income of $140 million, down from prior years due to higher claims costs and lower investment income. Net income contributes to retained earnings which helps protect policyholders against significant unexpected losses and volatile rates.



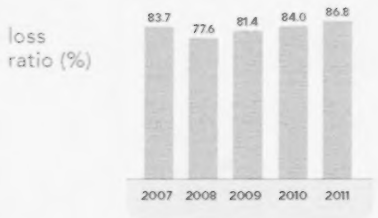
expense ratio

The expense ratio is a standard industry measure for assessing the operational efficiency of an organization. The expense ratio has increased slightly in 2011, however, it is consistently better than the industry. We continue to operate efficiently and manage costs effectively.



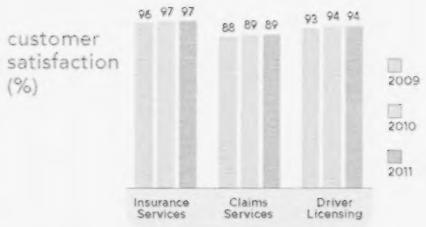
loss ratio

The loss ratio is a key performance indicator within the insurance industry measuring profitability of the insurance product. The 2011 loss ratio is higher than prior year due to increasing frequency and higher average cost of bodily injury claims.



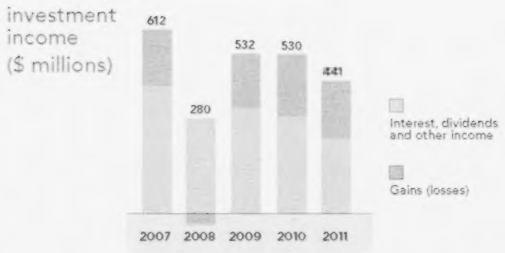
customer satisfaction

In 2011, ICBC continued with strong customer satisfaction levels which were the same as in 2010. We continue to work on improving customers' perceptions of us and building their trust.



investment income

ICBC's investments generated an income of $441 million in 2011 resulting from an investment environment with poor equity market performance and lower interest rates. Income from investments helps to reduce the amount of premiums that would otherwise have to be paid by customers.



message from the president and CEO

We started 2011 focused on our corporate strategy and objectives of improving customer perception and employee experience while maintaining financial stability. Although we have had many challenges this year, our Transformation Program initiatives achieved several major milestones en route to making our systems and processes more responsive to customer needs.

Our strong financial performance over the last several years has allowed us to provide greater value to our customers by providing them with the best service and coverage at the lowest possible price. However, in 2011, we faced new pressures. Although we were able to continue our strong investment performance despite a challenging investment market and lower interest rates, our investment income in 2011 was $89 million lower than 2010. In past years, we've been able to rely on our investment income to help keep rates down, but we can no longer do so to the same extent. Even more concerning is that we saw a $114 million increase in our claims costs in 2011, which is attributed mainly to an increase in the number of bodily injury claims and their costs growing at a much higher rate than anticipated. While we continue to be an industry leader with our low operating costs, which make up a small portion of insurance premiums and have been held around the rate of inflation since 2002, we are continuing to keep a close watch on our own spending. We reduced our 2011 operating costs and will remain focused on managing our costs into 2012. Reduced investment yields and rising bodily injury claims costs had the most significant impact on our Basic insurance costs, which unfortunately meant we needed to

increase our Basic rates. BCUC has granted an interim rate increase for our Basic rates but final determination will be in the fall. At the same time, we were able to implement a decrease in our Optional insurance rates in 2012 thanks, in part, to the continued drop in auto crime in BC.

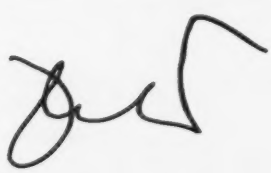
We made considerable steps in improving the customer experience in 2011. Our "no appointment" customer claims initiative, which is being piloted in four claims centres, is making the process smoother and quicker for our customers and us. The new process allows adjusters to handle most customers' material damage claims over the telephone enabling our customers to go directly to a body shop of their choice. We know that English is not the first language of all of our customers, so we provided Chinese and Punjabi translations of our "At the scene of a crash" claims card to help customers remember all the vital information they need to gather in order to make a claim. While most people agree with the principle of higher-risk drivers paying more while lower-risk drivers pay less, we heard that people had strong opinions about how this should and should not be done. Prior to proposing any new rate structure changes, we will be undertaking a province-wide public engagement process in 2012 to inform our customers and stakeholders about changes under consideration, and to seek feedback on options for a fairer and more driver-based system.

To be successful in improving customers' experiences, our staff must be empowered, engaged and accountable for the actions they take. We are proud to have been named to "BC's Top Employers" list, which recognizes BC companies that lead their industries in offering exceptional places to work. Making the 2011 list was external validation of our progress towards the 2014 Strategy. It is also the kind of public recognition that helps us attract high-quality people who are seeking great companies to build their careers. We reached a major step in supporting our culture of recognition and appreciation with the creation of the annual DRIVE (Delivering Results Innovation Values with Enthusiasm) Awards, which celebrates the achievements of some of ICBC's best and brightest. And ICBC and COPE 378 re-established the Joint Employment Equity Advisory Committee, in order to help meet our long-term plan of integrating diversity and inclusion into our culture and business practices, so that our workplace reflects the diversity of the communities and customers we serve.

We are proud to have met many milestones in the Transformation Program – our multi-year program that will collectively help ICBC improve services and options for customers, while providing employees with the tools they need to be successful and better meet customer expectations. We began using a new online learning system called Learning Centre for tutorials and training, which gives us "on-demand" training tools and includes capacity for virtual classrooms, making training more accessible for employees working throughout BC. Our new employee portal, the Hub, launched in mid-2011. The Hub represented the first time a Transformation Program project has implemented a technology company-wide at ICBC. It lays a foundation for and reflects our commitment to improve our employees' experience, so our staff can more effectively meet our customers' expectations. In the fall of 2011, we started using industry-leading software to help manage projects across our company. This new software gives us a corporate-wide view of projects and helps us better track and plan resources and manage risks and issues. We also put a standardized testing process and tools in place for our custom-built and off-the-shelf systems to ensure new software we buy works as it should.

Looking forward, we expect another challenging year. We will strengthen our relationships with customers and our partners and suppliers and will continue to invest in initiatives to improve road safety. We continue to make much-needed investments in our aging customer service systems, and through underwriting and pricing improvements, we continue to move towards driver-based pricing where premium rates will be more reflective of driver risk.

We are proud of our staff for coming along with us on this journey of change, and are thankful for the support of our brokers and business partners. Together we will make ICBC a stronger and more successful company for the people of BC.



Jon Schubert, CMA, HCIP
President and Chief Executive Officer

corporate overview

ICBC was established as a provincial Crown corporation in 1973 and, at that time, was the sole provider of auto insurance in BC. Soon afterwards, legislation was amended to allow other insurance companies to sell Optional auto insurance products. Today, we are the sole provider of Basic (universal compulsory) auto insurance, the rates for which are regulated by the BCUC, and we sell Optional auto insurance products in a competitive marketplace.

In addition to our insurance products and services, we also provide a number of services on behalf of the provincial government, including vehicle registration and licensing, driver licensing and fines collection. We refer to these as our non-insurance services.

In providing our products and services, we operate as an integrated company for the benefit of our customers. We are one of BC's largest corporations and one of Canada's largest property and casualty (P&C) insurers. Our insurance products and services are available through a province-wide network of approximately 900 independent brokers, government agents and appointed agents. We process approximately 900,000 claims each year through our 24-hour, seven-days-a-week telephone claims handling facility, 38 claim centres and other claims handling facilities across the province, including Express Glass and Repair facilities, and icbc.com. We also provide driver licensing services through 120 points of service, including driver licensing centres, government agents and appointed agents throughout BC. Our head office is located in North Vancouver, BC.

In delivering our products and services, we partner with businesses and organizations in communities throughout BC. Autoplan brokers are key business partners for ICBC, distributing our insurance products and providing other services such as vehicle registration and licensing. We deliver our services in partnership with a broad base of suppliers in the automotive industry and liaison groups such as the Automotive Retailers Association. Law enforcement agencies, health services providers, lawyers, and public and community organizations are among our other key partners.

insurance products and services

Similar to other vehicle owners across Canada, motorists in BC are required by law to purchase a minimum level of Basic auto insurance. This provides private passenger and certain commercial vehicle owners with $200,000 in third-party liability protection, $150,000 for medical and rehabilitation costs, and $1 million of underinsured motorist protection. British Columbia's coverage is among the most comprehensive in the country. Buses, taxis, limousines, and inter-provincial trucking and transport vehicles have higher mandatory levels. In addition to providing Basic auto insurance, we also offer various Optional auto insurance coverages, including extended third-party liability, collision, comprehensive, and vehicle storage. The table on the next page illustrates the full spectrum of our Basic and Optional insurance products.

Auto insurance in BC is based on a full tort system, which means that an at-fault driver or vehicle owner may be taken to court for the full amount of damages. In addition, an injured party has access to accident benefits coverage regardless of fault. This coverage includes medical and rehabilitation expenses and up to $300 per week for wage loss. In other provinces in Canada, auto insurance may be based on tort with caps, no-fault or a mixed no-fault and tort system, which means that compensation may be based on predetermined benefit schedules regardless of fault, thresholds and/or caps or deductibles on pain and suffering awards, and little or no ability to sue for further damages. These differences and different driving conditions and traffic density make inter-provincial comparisons difficult since the products, services and cost structures of each are unique.

ICBC's basic and optional insurance products

basic coverage

The minimum insurance protection any vehicle must carry to legally operate in BC:

- Third-Party Liability
- Accident Benefits
- Underinsured Motorist Protection
- Protection Against Hit-and-Run* and Uninsured Motorists
- Inverse Liability Coverage

optional coverage

Additional protection to meet customer needs:

Vehicle

- Collision
- Comprehensive
- Specified Perils
- Vehicle in Storage
- New Vehicle Replacement Plus
- Limited Depreciation Coverage
- Replacement Cost Coverage
- Collector and Vintage Vehicles

Equipment

- Motor Vehicle Equipment
- Excess Special Equipment
- Motor Home Contents

Individual and Family

- Extended Third-Party Liability
- Excess Underinsured Motorist Protection
- Income Replacement Policy Including Death Benefits
- Loss of Use
- Vehicle Travel Protection
- RoadStar/Roadside Plus

** Hit-and-Run payments for property damage are provided if not recoverable from any other source.*

We invest in road safety programs that provide a direct benefit to our customers by helping to reduce traffic-related deaths, injuries and crashes. By doing so, we help to reduce the impact of auto crashes for everyone in BC. Fewer crashes also help control claims costs, which ultimately help provide our customers the best coverage at the lowest possible price. Our road safety strategy focuses on safer drivers, safer roads and safer vehicles. We make targeted investments in education and awareness campaigns to help drivers make smart driving decisions, community-based initiatives to promote safe driving, enhanced traffic police enforcement that focuses on high-risk driving behaviours and locations, and road improvements designed to make high-crash intersections and corridors safer for drivers. We also deliver loss management programs to help reduce the impacts of auto crime, including programs that target thieves and help reduce auto crime in high-risk areas, and programs to prevent and reduce the impact of fraud on our customers.

This work cannot be done alone, which is why we partner with many individuals and organizations across the province to deliver these programs, including the Ministry of Justice, the Ministry of Transportation and Infrastructure, Service BC, local governments, the law enforcement community, brokers, driver training schools, industry associations, community groups, and the many volunteers who devote their time and energy to making BC roads safer for everyone.

non-insurance services

In addition to our insurance products and services, we also provide a number of non-insurance services on behalf of the provincial government, which include driver licensing, vehicle registration and licensing, violation ticket administration and government fines collection.

We manage the issuance of vehicle licence plates and decals through brokers across the province who perform vehicle registration and licensing functions at the time of insurance purchase. This linkage between the requirement for vehicle registration prior to licensing and the issuing of Basic auto insurance minimizes the number of unlicensed and uninsured vehicles operating in BC.

The driver licensing services we provide include driver testing and licensing, the administration of programs such as the Graduated Licensing Program, the regulation and oversight of the driver training industry in the province, and administration of provincial violation tickets. We also support the Office of the Superintendent of Motor Vehicles with programs relating to driver fitness, driver improvement, administrative driving prohibitions, and vehicle impoundment. The programs and services we deliver help ensure safer roads for all British Columbians.

To find out more about all of our products and services, please visit our website at icbc.com.

3

report on performance

ICBC's corporate vision is to be BC's preferred auto insurer, providing protection and peace of mind. With this vision, we remain focused on building trust with our customers by delivering improved customer experience and offering products and services that are good value. We are improving business processes and efficiencies to deliver improved customer experience, and are also working toward providing customers with pricing that is more reflective of driver risk. Improving customer experience will also need the support of our employees. We will therefore continue to focus on improving the experience of our employees, by providing them with the tools and education to help them be successful, develop leadership capabilities, and build workforce readiness for change. Our strong financial performance over the last several years has allowed us to provide greater value to our customers by providing our customers with the best service and coverage at the lowest possible price. We will continue to maintain financial stability by having a conservative investment philosophy, prudent management of our operating costs, and claims strategies to control claims cost pressures.

We established key strategies under our corporate objectives. The strategies represent core areas of focus for the work that is underway to achieve our corporate goal and objectives over the next two years. Therefore, it is important to understand these strategies in the context of our overall vision, mission, goal and objectives.

- Corporate Goal: We must improve our customers' experiences and perceptions of us. We will do this by listening to, better meeting the needs of, and trusting our customers while maintaining low and stable auto insurance rates. To be successful, all of us must be empowered, engaged, and accountable for the actions we take to achieve this goal.
- Improve Customer Perception Objective

  Understand our customers and exceed their expectations
- Improve Employee Experience Objective

  Engaged, inspired, and confident leaders and employees
- Maintain Financial Stability Objective

  Streamlined, efficient, and cost-effective systems and processes

performance management systems

To assess progress against our goal and objectives, we rely on a number of financial and non-financial corporate performance measures. Where possible, we use standard industry measures that enable benchmarking with other insurers. Where external sources of data are used, the most current available information is included in this report. In other cases, because of our unique business model, we develop distinct measures relevant to the area of performance. Performance against these measures is monitored throughout the year and actions are taken to address significant variances.

Our data used in the calculation of performance results are derived from the company's financial and operating systems. Controls over our financial systems are periodically reviewed by our internal and external auditors. We recognize the inherent limitations in all control systems. We believe that our systems provide an appropriate balance between costs and benefits desired and that the systems of internal controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

Independent firms are retained to conduct ongoing surveys of customers for the purpose of monitoring customer satisfaction and an annual survey for the purpose of monitoring employee engagement.

The following sections provide further information on our objectives and key strategies, as well as our 2011 performance results relative to the measures and targets outlined in ICBC's 2011 – 2013 Service Plan. Performance targets for 2012, as outlined in our 2012 – 2014 Service Plan, are also provided.

improve customer perception

multi-year strategy and measures: 2011 – 2013 Service Plan*

strategy	measures
understand our customers and exceed their expectations	• **insurance services satisfaction** • **driver licensing satisfaction** • **claims services satisfaction**

** Objectives, strategies and measures for 2012 and future years are reflected in ICBC's 2012 – 2014 Service Plan.*

Improving our customers' perceptions of us is a key strategic focus and we are working towards achieving this by committing to understand what is important to our customers and exceeding their expectations.

For the third year in a row, the Claims Contact Centre was awarded the title of Call Centre World Class Call Certification from the Service Quality Measurement (SQM) Group — one of 13 North American companies to receive the distinction. SQM surveys customers from approximately 450 leading North American companies annually. In addition, two ICBC adjusters received SQM's Most Improved World Class Certification. Claims employees weren't the only ones to be recognized by SQM for their superior customer service. Fifteen employees from Insurance — 12 from Driver Testing and Vehicle Information (DTVI) and three from First Contact — also received World Class Call Centre Certification, in addition to our DTVI centre.

We also launched an award of our own this year: the Broker Customer Experience Award. This new program rewards brokers for providing customers with outstanding customer experiences. This new, innovative and industry-leading awards program is part of brokers' overall remuneration package. To qualify for part of the award, brokers will be measured using the same customer experience goal that we use internally at ICBC. This new award program complements the "What's New with You" customer experience focused sales training we're delivering to brokers this year.

We recognize that our customers want multiple ways to communicate with us, including online. We have been building and expanding our social media presence, most notably on Twitter. In 2011, our forward-thinking approach to engaging with and assisting customers on Twitter was awarded with an International Association of Business Communicators Gold Quill Award of Excellence in social media — a prize that recognizes excellence in communications strategies. The Twitter account provides customers with driving, insurance and road safety tips, as well as helping solve issues. To assist our customers who are studying to take the knowledge test — the very first step in getting their "L" driver's licence — we created a mobile application or "app" that will run the practice knowledge test on Apple products such as iPod touch devices, iPhone smartphones or iPad tablets. The app also includes the complete *learn to drive smart* guide, all driver licensing locations and selected videos that are aimed at new drivers to help them prepare for their test and be safe on our roads. Our Chinese and Punjabi speaking customers can now access information in their own primary language on icbc.com. Many of icbc.com's key services have been translated into Chinese and Punjabi, including information on how to get your driver's licence, how to insure your vehicle and how we can help you get back on the road if you have a claim. And in early 2011, we also provided Chinese and Punjabi translations of our "At the scene of a crash" claims card to help customers remember all the vital information they need to gather in order to make a claim.

With over a million views to the site each year, our Business Partners website provides an important touch point and business tool for some of our key business partners in Material Damage, Claims, Claims Legal Services, Driver Licensing, and Insurance. Our focus was to improve the design of the site so our business partners would be able to find their content more quickly and easily and also align it with up-to-date ICBC brand elements. The existing Business Partners site was developed over 10 years ago, and saw little change over those years. In 2011, we added a Road Safety site to help them provide their business partners, such as police services, a collaborative workspace to discuss and share upcoming road safety campaigns.

There was a lot more waving happening on BC roads this summer and fall thanks to ICBC's "Wave Wednesdays" campaign, which encouraged drivers to thank other drivers for an act of driver courtesy. More than 35,000 BC drivers shared their personal stories of driver courtesy on our

icbcdrivesmart.ca site. To reach our youngest audience, we launched two peer-oriented campaigns to appeal to young drivers to change risky driving habits. The 180 Short-Film Contest for 19 – 25 year olds challenged youth to make a short film with a road safety message, while the Your Ad Here contest asked those in grades 8 – 11 to design a print ad that will make their friends reconsider their risky driving habits. More than 124 films were submitted to the 180 Short-Film Contest, with more than 160,000 views on the YouTube channel, while there were more than 150 entries to the Your Ad Here contest.

Our "no appointment" customer claims initiative is making the process smoother and quicker for our customers and us. Launched at four early adopter offices in the Lower Mainland, the new process allows adjusters to handle most customers' material damage claims over the telephone enabling our customers to go directly to a body shop of their choice. Adjusters can now handle claims over the phone to decide if a customer needs to come in to a claims centre, or if they can go directly to a body shop. It speeds up the process, because they don't have to wait on our schedule or a body shop's schedule to get their vehicle back. Customers still have the option of coming into a claims centre, but this initiative also gives them the option if they prefer not to.

In May, we announced part of our proposal to change our Basic insurance rate structure to make it more reflective of risk. While most people agree with the principle of higher-risk drivers paying more while lower-risk drivers pay less, we heard that people had strong opinions about how this should or should not be done.

Prior to proposing any new rate structure changes, we will be undertaking a province-wide public engagement process in 2012 to inform our customers and stakeholders about changes under consideration, and to seek feedback on options for a fairer and more driver-based system.

performance measures, targets and results:

We measure customer service performance based on the percentage of satisfied customers. A separate measure is used for each major transaction type — insurance product purchase, claims service and driver licensing.

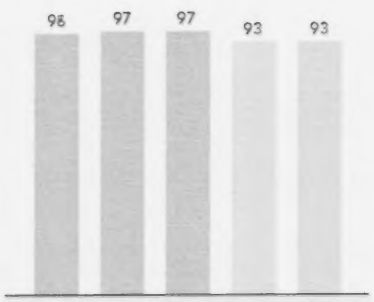
The design of our measures and targets reflects the inherent differences of these key transactions. An independent research firm conducts ongoing customer surveys throughout the year to monitor transactional satisfaction.

insurance services satisfaction

Independent insurance brokers process over three million policies each year. The insurance services satisfaction measure represents the percentage of customers satisfied with their recent ICBC insurance transaction and is based on surveys of approximately 3,600 customers during the course of the year.

This measure is typically higher than 90% and indicates the positive relationship ICBC and its brokers enjoy with customers. The 2011 results were 97%, which exceeded the plan and are consistent with the results from prior years. For 2012, the target has been set to reflect our plan of maintaining a high level of customer satisfaction but slightly lower at 93% due to anticipated business changes while preparing for the renewal of technology and the new business processes associated with our Transformation Program.

insurance services satisfaction (%)



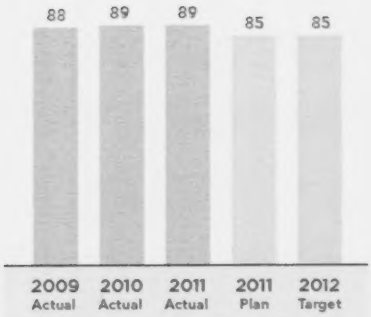
source: surveys conducted by independent firm

claims services satisfaction

In 2011, approximately 900,000 claims were processed through ICBC's Dial-a-Claim, claims centres and specialty departments such as, but not limited to, commercial claims and rehabilitation services. The claims services satisfaction measure represents the percentage of customers satisfied with their recent ICBC claims transaction and is drawn from a sample of over 25,000 customers surveyed throughout the year.

In 2011, claims services satisfaction was 89%, which exceeded the plan and was consistent with the prior years' results. For 2012, we expect that customer satisfaction will be impacted as we work on the implementation of a new claims management system and associated changes to business processes. As a result the target of 85% has been set to reflect these expected changes.

claims services satisfaction (%)



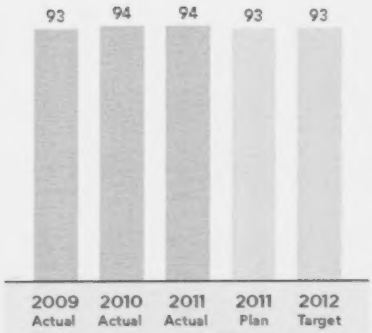
source: surveys conducted by independent firm

driver licensing satisfaction

ICBC conducts approximately 1.5 million transactions relating to the issuance of driver licences and driver exams each year. The driver licensing satisfaction measure represents the percentage of customers satisfied with a recent driver licensing transaction with ICBC. The transaction could relate to issuing or renewing a licence, taking a knowledge test, or undergoing a road test. This measure is drawn from a sample of over 6,000 customers surveyed throughout the year.

The 2011 results for driver licensing satisfaction, at 94%, exceeded the plan and was consistent with prior years' results. This measure is typically over 90% and is indicative of ICBC's commitment to customer service. For 2012, the target has been set at 93%, which is consistent with historical norms.

driver licensing satisfaction (%)



source: surveys conducted by independent firm

improve employee experience

multi-year strategy and measures: 2011 – 2013 Service Plan*

strategy	measures
engaged, inspired and confident leaders and employees	• employee engagement index

** Objectives, strategies and measures for 2012 and future years are reflected in ICBC's 2012 – 2014 Service Plan.*

We know we need confident, inspired employees in order for us to achieve our objective. Despite the amount of change in many parts of our organization in 2011, our engagement score remained quite stable. We continue to remain focused on increasing employee involvement in business priorities and improving how we manage change as we transform our business to better serve our customers. Through continued investment in employee development, working hard at improving recognition, and listening more, we will make ICBC an even better place to work.

We were proud to have been named to "BC's Top Employers" list, which recognizes BC companies that lead their industries in offering exceptional places to work. It provides a useful benchmark on how ICBC compares with BC's leading private and public sector companies on a range of criteria, such as financial and family benefits, health benefits, training and skills development, community involvement, and employee communications. We were recognized as a top employer for several reasons. Our financial stability makes us a stable employer with a low attrition rate, and is allowing us to focus on doing what's right for our customers. We have a clear vision for the future which is helping employees participate in driving change. And we're bringing in new processes and technology to make it easier for employees to better serve our customers. Making the 2011 list was external validation of our progress. It is also the kind of public recognition that helps us attract high-quality people who are seeking great companies to build their careers.

Our new employee portal, the Hub, brought in the infrastructure for future portals with customers, suppliers and employees. This redevelopment project streamlined existing content to provide employees with direct and efficient access to the information and tools they need to serve our customers. We also launched Learning Centre, ICBC's new learning management system, which provides staff with more ways to learn and easier access to on-demand training. Learning Centre, which was delivered through the Transformation Program, provides staff with improved access to training and development tools from wherever they are in the province, significantly reducing the need to travel. It will ensure staff have the right training for their current role, and help position them for future roles by offering a wide variety of courses and programs.

In 2011, we reached a major step in supporting our culture of recognition and appreciation with the creation of the annual DRIVE Awards. The DRIVE (Delivering Results, Innovation, Values, with Enthusiasm) Awards celebrates the achievements of some of ICBC's best and brightest. Awards were given in five award categories: Living the Values, Customer Experience, Employee Experience, Excellence in Innovation, and Change Champion. Also, each year, one DRIVE Award may be awarded to an employee who has demonstrated that they're Delivering Results, Innovation and Values with Enthusiasm. This award is for "grand slam achievement" and can recognize accomplishments in and outside of work.

ICBC and COPE 378 re-established the Joint Employment Equity Advisory Committee, in order to help meet our long-term goal of integrating diversity and inclusion into our culture and business practices, so that our workplace reflects the diversity of the communities and customers we serve. In the fall, we conducted a voluntary and anonymous survey on the diversity of our workforce. This information helped paint an accurate picture of our current workplace demographics. In the future, this data will help us determine if we are making progress in our diversity and inclusion initiatives.

There's no doubt that social media has changed the way many people communicate and connect. So we updated our Code of Ethics to include examples of how employees should apply the Code and other applicable corporate policies when using social media. When participating in social media sites such as Facebook, LinkedIn™ professional networking services and Twitter, employees are expected to behave in a way that's consistent with ICBC's Values, Code of Ethics and policies. We made these updates to reinforce that although social media is online, it is still in the public domain.

We believe in investing in the communities where our employees live and work and supporting causes important

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to them. In 2011, we developed a Community Involvement Policy which shows how we will support communities in a way that is consistent with our business. During 2011, ICBC and its employees gave generously to several charities, including more than $155,000 to the Canadian Red Cross and other charitable organizations for the Japan Earthquake and Asian Pacific Tsunami relief effort. ICBC and its employees contributed more than $900,000 to United Way and their registered charities across British Columbia. Our Giving Back to Communities program recognizes and supports employees who volunteer and teams that fundraise for registered charities in their community by making a donation to their chosen charity. ICBC's Ride to Conquer Cancer team was able to raise more than $159,000 for the BC Cancer Foundation.

performance measures, targets and results:

employee engagement

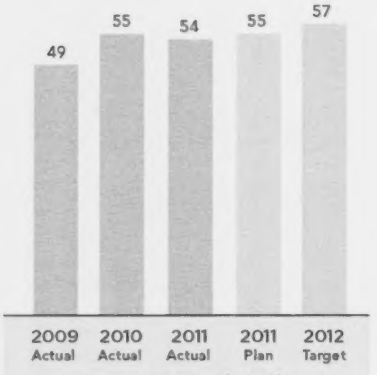
This measure represents the overall level of engagement of ICBC employees, as defined by how positively they speak about the organization to co-workers, potential employees, and customers; the level of desire they have to be a member of the company; and the degree of extra effort and dedication they are willing to apply to doing the best job possible.

All of our 5,300 full-time employees were invited to take part in the 2011 Employee Opinion Survey in the fall. The participation rate fell slightly, but remained strong at 76%. The 2011 result, at 54%, was just slightly under the target of 55% — not an unexpected result given the scope and pace of change in ICBC as we pursue our strategic goals. We remain committed to significantly improving our engagement score over the next few years.

In 2012, we have set our target at 57%. One of the key factors affecting our employee experience is our outdated work tools and processes. ICBC's goal is to maintain a workforce of engaged and committed employees while we do the transformative work necessary to modernize our systems and processes. In keeping with the company's long-term corporate strategy, ICBC strives to improve the employee experience by cultivating a workforce of engaged, inspired and confident leaders and employees.

One of the ways ICBC is also working to improve employee engagement is to increase their involvement in business priorities. This face-to-face approach to sharing strategic information— especially important at a time of major system and process changes — will continue in 2012. Building a culture of recognition and appreciation is another key factor in supporting an engaged workforce. ICBC is encouraging peer recognition as a way to nurture such a culture. Further recognition enhancements are planned for 2012. ICBC continues to value diversity in its workforce. In 2011, more than 3,000 employees replied to a workforce demographic survey. The results will help shape Diversity and Inclusion strategies designed to ensure that ICBC is a great place to support customers and employees in an increasingly diverse province as well as attracting the best talent by being welcoming and inclusive.

employee engagement index (%)



source: surveys conducted by independent firm

maintain financial stability

multi-year strategy and measures: 2011 – 2013 Service Plan*

strategy	measures**
streamlined, efficient, and cost-effective systems and processes	• minimum capital test • combined ratio • loss ratio • expense ratio • investment return

** Objectives, strategies and measures for 2012 and future years are reflected in ICBC's 2012 – 2014 Service Plan.*

*** Financial information for 2011 and after was prepared based on IFRS and 2010 information has been restated to IFRS for comparative purposes. Financial information for 2009 was prepared in accordance with pre-IFRS changeover Canadian GAAP.*

Being financially responsible has provided us with a solid foundation that allows us to continue to provide value to our customers and achieve our other objectives. Our financial results over the past several years have also helped us to build our capital levels. Capital acts as a contingency to help protect our customers from unforeseen and unexpected events, providing them with the confidence that their claims will be paid and they will receive the best service and coverage at the lowest possible price.

However, in 2011, we faced new pressures. Like other companies and individuals, the challenging world financial markets negatively affected us. Although we were able to continue our solid investment performance despite market volatility and lower interest rates, our investment income in 2011 was $89 million lower than 2010. In past years, we've been able to rely on our investment income to help keep rates down, but we can no longer do so to the same extent. Our investment portfolio remains diversified and well-managed with the majority of our investments in short-term bonds. We have worked to position our investment portfolio to minimize market risks to protect its current value in the wake of very challenging market conditions.

Even more concerning is that we saw a $114 million increase in our claims costs in 2011, which is attributed mainly to bodily injury claims costs growing at a much higher rate than anticipated. In 2011, our bodily injury costs were $1.7 billion – $350 million more than five years ago.

Approximately 87 cents of every premium dollar we collected in 2011 went to claims and related costs which include the compensation of victims of accidents and the repair of damaged vehicles and property. This was not sustainable. Reduced investment income and rising bodily injury claims had the most significant impact on our Basic business, which meant we needed to increase our Basic rates. At the same time, we were able to implement a decrease in our Optional insurance rates thanks, in part, to the continued drop in auto crime in BC.

While we continue to be an industry leader with our low operating costs, which make up a small portion of insurance premiums and have been held around the rate of inflation since 2002, when we reduced our costs by approximately 25% in 2001, we are continuing to keep a close watch on our own spending. We re-evaluated our expenditures in the second half of 2011 and initiated a suite of cost control measures. These included conducting detailed budget reviews to search for cost savings opportunities across the company; centralizing our corporate planning process to ensure stronger executive leadership oversight and accountability for cross-corporate project prioritization and results delivery, which reduced the number of projects and will help to control the associated costs; and executive approval for all hiring and ensuring that new staff is only hired to fill vital positions in response to business demand.

ICBC's data centre was moved from head office to a new facility in Kamloops. The data centre is critical to business operations, enabling the sale and service of our products. Our old facility was reaching end of life and was not designed to house the newer technology used today, nor be the best long-term solution required to meet our vision for success. We negotiated a 20-year agreement, which will put us in a better position to maintain financial stability by managing the cost-effectiveness and efficiencies of our assets and operations. This long-term solution provides us the stability required for our data centre environment, while improving our ability to manage technology costs, so we can continue to deliver existing and new services to our customers well into the future.

Another Transformation Program milestone was achieved in 2011 when we completed our project that improves our ability to make strategic decisions for projects across the corporation. It improves our ability to plan, track, report on and manage resources on all of our projects. This helps us identify risks and gaps sooner, leading to better risk mitigation. With the addition of comprehensive project financials, it supports effective planning, and ultimately helps us achieve successful implementations. The project focused on four key areas: resource management, project and portfolio management, time reporting, and financial systems integration with the new resource management software.

We made some major changes to our Claims division structure in order to provide better customer service and address cost pressures. The core principle behind the changes has been to align the Claims organization to a functional model. The Claims division has historically been organized primarily on a geographic basis. With a functional model, individuals doing the same type of work will be organized within a single reporting stream (e.g., injury and non-injury). The industry and best practice research we've done indicates that a functional model will help us to better meet customer expectations of convenience and a hassle-free claims experience. The model, which is based on claim type, risk and complexity, will also take advantage of capabilities provided by the new Claims system. As an added benefit, we believe that increased focus by claim type will help us better address the pressing challenge of rising bodily injury costs.

2011 was our second year of being carbon neutral and we continued to reduce our operational carbon footprint from the 2007 baseline. This was also our first full year of testing new commercial drivers on their knowledge of fuel-saving techniques, which reduced provincial emissions by an estimated 25,000 tonnes. Our Curb the Carbon campaign asked staff to reduce their energy use at work and more than 1,900 employees participated in everything from shutting off their space heaters to shutting off their computer monitors. And more than 31,000 km of vehicle travel was avoided when 1,200 of our employees participated in the Commuter Challenge. ICBC was named first place winner in the 500-plus employees' category for the most kilometres avoided in a single-occupancy vehicle.

One way we help prevent traffic-related deaths, injuries and crashes and reduce costs is through our road safety programs. Fewer and less severe crashes benefit us all by helping to keep people and our communities safe, and by helping keep claims costs and insurance premiums low. ICBC invested over $58 million in road safety and loss management initiatives in 2011.

In 2011, BC's upgraded and expanded Intersection Safety Camera program was installed at 140 sites. The digital cameras are located in 26 communities across the province to help save lives and reduce the almost 230 crashes that occur daily at intersections throughout the province. The cameras detect and photograph vehicles running a red light, and are expected to reduce casualty crashes at BC's highest-risk intersections sites by about six per cent annually. The upgraded and expanded Intersection Safety Camera program is a joint initiative with the provincial government, ICBC and police to cut the high incidence of intersection crashes, which are often the most serious because they include head-on and side-impact crashes. Ticket revenue from the cameras will continue to be distributed amongst all municipalities across BC to enhance their policing and community-based public safety programs.

We work with police and our community partners year-round to make roads safer and to reduce auto crime, recover stolen vehicles and educate the public on protecting their property against auto theft. During the High Risk Driving campaign, we asked BC drivers to take a look in the mirror and be honest about their own driving habits. We focused on five actions that are common causes of crashes: speeding, failure to yield, following too closely, ignoring a traffic control device, and improper passing. During Auto Crime Enforcement Month we reminded our customers about the steps they can take to protect their vehicle from thieves. Every theft we prevent helps our customers by keeping our communities safer, prevents individuals and families from being victims of crime, and it helps keep insurance rates low. On average, each stolen vehicle claim costs our customers approximately $4,300. We also partnered with WorkSafeBC, and the police on a distracted driving campaign that targeted those who drive as part of their job. To help workers and employers take steps to eliminate distracted driving, new materials were provided through WorkSafeBC.com.

performance measures, targets and results:

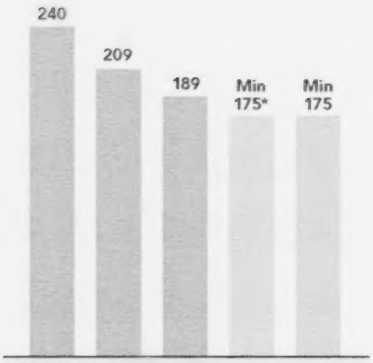
minimum capital test

Minimum capital test (MCT) is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. MCT measures capital available, compared to capital required, and is used to assess whether a company has sufficient capital to protect policyholders from financial risk and provide long-term financial stability. Appropriate levels of capital can help protect customers by providing stability in rates in the face of significant, externally-driven negative impacts to the business.

Pursuant to a legislative change effective April 2010, ICBC now transfers to the Province of BC on an annual basis Optional capital in excess of the Optional MCT less a deduction for the remaining Transformation Program reserve as approved by the Treasury Board. This calculation is reviewed by our actuaries in accordance with federal regulatory guidance, and validated by an independent actuary.

The minimum management corporate MCT target is now set at 175%, up from 170% in 2010, as we reassessed our capital position and the appropriateness of our management targets. Our 2011 MCT was 189%, higher than this revised minimum target of 175%, and was built from strong net income over the past years. Net income increases the amount of total equity held by us, thereby increasing available capital and payments to the Province reduce total equity. 2011 MCT is lower than 2010 due to the excess Optional capital transfer to the Province of BC as well as accounting changes resulting from IFRS combined with a decrease in other components of equity resulting from lower unrealized gains on available for sale securities.

minimum capital test (%)



** Revised from 2011 – 2013 Service Plan*
source: ICBC financial systems

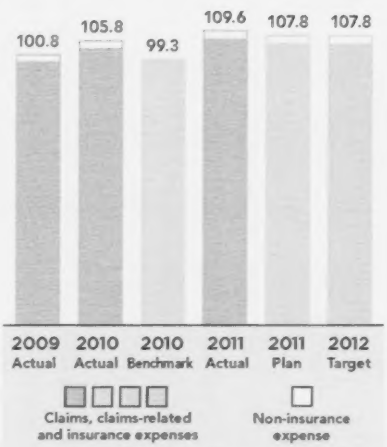
combined ratio

The combined ratio is a key measure within the insurance industry for overall profitability and is the ratio of costs to premium dollars earned. A ratio below 100% indicates an underwriting profit (i.e., premiums are sufficient to cover costs) while a ratio above 100% indicates an underwriting loss (i.e., premiums are not sufficient and investment income is needed to help cover costs). Costs that affect the combined ratio are claims costs, claims-related costs, operating costs and acquisition costs.

Our combined ratio is higher than typical for the P&C industry and reflects the unique nature of our business model. Our premiums are not set to generate large underwriting profits, but together with investment income are set to recover all costs and achieve and maintain capital targets. We deliver non-insurance services on behalf of government and in 2011, non-insurance costs represented approximately three percentage points of the combined ratio.

The 2011 results are higher than plan mainly due to higher frequency of injury claims combined with an unfavourable discounting adjustment caused by lower interest rates. This was partially offset

combined ratio (%)



source: ICBC financial systems

by lower prior years' claims costs and lower operating costs. The 2011 combined ratio, including non-insurance services, is higher than 2010 primarily due to higher claims and acquisition costs. The P&C 2010 industry benchmark was 99.3%.[1]

The combined ratio target for 2012 reflects current expectations regarding claims cost trends and operating costs. Operating costs will be managed within inflation while also allowing for an investment in business renewal and replacement of aging technology. The premiums earned assumes a Basic rate increase of 11.2% offset by an Optional rate decrease of six per cent, effective February 1, 2012.

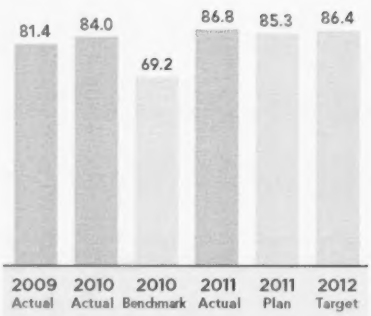
loss ratio

A key performance indicator within the insurance industry is the loss ratio, which is a measure of the insurance product's profitability. This measure is the ratio of the total of claims and claims-related costs (claims services, road safety and loss management costs) but excludes administrative and acquisition costs, to insurance premium dollars earned. From a customer perspective, the higher loss ratio means more of each premium dollar collected is used for claims costs.

Our loss ratio is typically higher than the P&C industry, because our premiums are only set to recover costs and to achieve and maintain capital targets and do not build in as large a profit margin as the P&C industry. We use our investment income to offset rates for our customers, thereby allowing rates to be lower than they would be if we had to generate an underwriting profit as private insurers do. As reflected in the expense ratio, we have lower relative operating costs and can pay more of each premium dollar towards claims and related costs. This results in a higher loss ratio. In addition, we are mandated to provide Basic insurance to all drivers in BC, including the category of high-risk drivers whose claims costs are proportionately higher. This results in a higher loss ratio for us relative to those insurers who may limit their exposure to such business.

In 2011, ICBC's loss ratio was 86.8%, higher than the plan ratio primarily due to higher bodily injury claims costs. Claims costs were unfavourable compared to prior year due to a higher number of reported injury claims and increased claims costs. The 2010 P&C industry benchmark was 69.2%.[1] The 2012 target is consistent with 2011 reflecting current expectations regarding claims costs trends and claims-related costs.

loss ratio (%)



source: ICBC financial systems

[1] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2011. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and SAF). 2011 data not currently available.*

expense ratio

The expense ratio is a standard industry measure for assessing the operational efficiency of an organization and is the ratio of non-claims costs to insurance premium dollars earned. It includes operating costs that are directly related to selling insurance such as general administration, commissions paid to brokers, taxes paid to government on premiums written, product design (underwriting), and non-insurance costs such as those associated with driver licensing and vehicle registration.

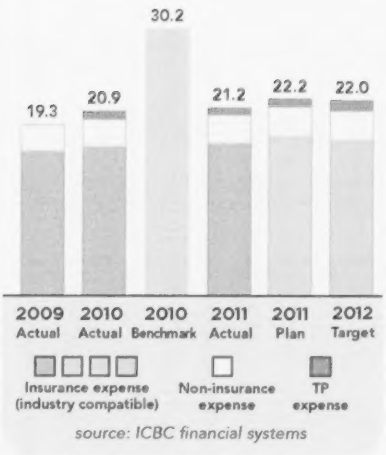
Our expense ratio consists of three key components: the insurance expense ratio, the Transformation Program (TP) expense ratio, and the non-insurance expense ratio. We incur costs for non-insurance expenses such as driver licensing, vehicle registration and licensing, and government fines collection that other insurance companies do not incur. Segregating expenses in this manner allows us to better manage the costs of operating our insurance and non-insurance businesses, and to separately reflect the impact on this ratio of our investment in the business through the Transformation Program.

The 2011 expense ratio of 21.2% is lower than plan due to lower operating expenses as we continued to demonstrate our commitment to operating efficiently and managing costs effectively. The expense ratio for 2011 is higher than 2010 mainly due to higher acquisition costs and higher non-insurance expenses from additional staff hired to provide improved service levels.

Our expense ratio which, unlike the insurance industry, includes non-insurance costs, is still considerably lower than the 2010 P&C industry benchmark of 30.2%[2] (an expense ratio specific to auto insurance is not available). We believe that while the auto insurance expense ratio for the industry would be slightly lower than the overall P&C expense ratio, our expense ratio is lower than industry due to our ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting, acquisition and general administration costs.

The 2012 target for our expense ratio reflects higher operating costs due to reinvestment in our business through renewing our aging technology and the depreciation associated with capital expenditures from prior years. In addition, our operating expenses will be impacted by suppliers' increased costs and higher acquisition costs. We strive to manage and control the increase in operating costs within the rate of inflation.

expense ratio (%)



source: ICBC financial systems

[2] *MSA Research Inc., MSA Benchmark Report, Property and Casualty, Canada, 2011. Total Canadian Property Casualty Industry (including Lloyds, excluding ICBC and SAF). 2011 data not currently available.*

investment return

ICBC manages an investment portfolio with a carrying value of $11.5 billion at the end of 2011. The portfolio is conservatively invested with the majority of assets held in investment grade bonds. These assets are held primarily to provide for future claims payments, unearned premiums, and retained earnings. The income earned on these investments also helps to reduce the amount of premiums needed from policyholders.

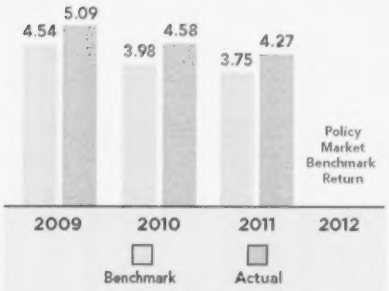
Investment returns, which incorporate both changes in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. In addition, the return of the overall portfolio is measured against a policy market benchmark calculated as the average of individual asset class market benchmark returns weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures established by ICBC's Board of Directors.

Investment returns over the last four years have benefited from the portfolio's fixed income holdings as the value of bond and mortgage investments have outperformed equity investments.

ICBC's investment returns continue to compare favourably to market returns. The 2012 – 2014 investment portfolio performance targets are set at the policy market benchmark return, net of investment management expenses. For performance measurement purposes, ICBC does not forecast the policy market benchmark return as it is the result of market forces beyond the company's control.

For 2011, ICBC's four year annualized return was 4.27% and the comparable policy market benchmark was 3.75%[1]. In comparison, for 2010, ICBC's four year annualized return was 4.58%, or a 0.60% higher return compared to the market benchmark.

investment return
(four year annualized)
(%)



source: return calculated by independent firm[1]

[1] *Sources: DEX Debt Market Indices; S&P TSX Composite Capped Index; Morgan Stanley Capital International (MSCI) EAFE Index; S&P 500; Merrill Lynch US Bond Indices; ICREIM/IPD Canadian Property Index; (ICREIM/IPD = Institute of Canadian Real Estate Investment Managers/ Investment Property Databank).*

summary of objectives and performance

The table below provides an overview of ICBC's historical performance as well as the 2012 to 2014 target performance. The results reported below are based on the objectives, strategies and measures outlined in the 2011 – 2013 Service Plan tabled in February 2011.

Objective	Strategy	Measures	Actual 2009	Actual 2010	Plan 2011	Actual 2011	Target 2012	Target 2013	Target 2014
improve customer perception	Understand our customers and exceed their expectations	insurance services satisfaction	96%	97%	93%	97%	93%	93%	93%
		claims services satisfaction	88%	89%	85%	89%	85%	85%	85%
		driver licensing satisfaction	93%	94%	93%	94%	93%	92%	92%
improve employee experience	Engaged, inspired, and confident leaders and employees	employee engagement index	49%	55%	55%	54%	57%	N/A	N/A
maintain financial stability[1]	Streamlined, efficient, and cost-effective systems and processes	minimum capital test[2]	240%	209%	Min 175%[3]	189%	Min 175%	Min 175%	Min 175%
		combined ratio							
		• claims costs, claims-related expenses, and insurance expenses	97.9%	102.8%	104.6%	106.5%	104.6%	103.1%	103.6%
		• non-insurance expenses	2.9%	3.0%	3.2%	3.1%	3.2%	3.2%	3.2%
		total	100.8%	105.8%	107.8%	109.6%	107.8%	106.3%	106.8%
		loss ratio	81.4%	84.0%	85.3%	86.8%	86.4%	85.8%	85.9%
		expense ratio							
		• insurance expense ratio (excludes DPAC)	16.4%	17.0%	18.1%	17.3%	17.7%	17.4%	17.2%
		• transformation program expense ratio	–	0.9%	0.9%	0.8%	1.1%	1.1%	1.0%
		• non-insurance expense ratio	2.9%	3.0%	3.2%	3.1%	3.2%	3.2%	3.2%
		total	19.3%	20.9%	22.2%	21.2%	22.0%	21.7%	21.4%
		investment return							
		• ICBC portfolio	5.09%	4.58%	Policy Market Benchmark Return	4.27%	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return
		• policy benchmark	4.54%	3.98%		3.75%			
		excess	0.55%	0.60%		0.52%			

[1] *2011 to 2014 financial information was prepared in accordance with IFRS and 2010 information has been restated to IFRS for comparative purposes. Financial information for 2009 was prepared in accordance with pre-IFRS changeover Canadian GAAP.*

[2] *Pursuant to legislative change effective April 2010, ICBC transfers its excess Optional capital to the Province of BC on an annual basis.*

[3] *Revised from 2011 – 2013 Service Plan.*

business risks and risk management

Consistent with good governance and insurance sector practices, we manage risk from an organization-wide perspective. Our Corporate Risk Management Framework is approved by our Board of Directors and defines our approach towards effective assessment and management of significant corporate risks. The framework considers both external and internal environments, and risks and challenges associated with each. The objective is to identify risks, raise awareness of those risks throughout the company, and initiate further action to mitigate significant risks.

For 2011, we have organized our strategic risks using our framework of corporate objectives:

improve customer perception

- **Customer Approval:** There is a risk that customer approval remains low or may decrease if customers do not perceive superior value in and/or do not trust us resulting in loss of support for ICBC. Customers have expectations around prices, choice, convenience and the way they are treated including service. In addition, they want to be able to access their insurer in a variety of ways, including face-to-face, via the telephone or the internet.

  In 2011, Customer Experience Learning training continued to be delivered to our staff to support moving our culture in the right direction and become more customer-focused. In response to our stakeholder's request, best practice public engagement for Basic insurance pricing was planned to ensure we fully understand and obtain customer input into the design of our pricing before proceeding with a rate restructuring proposal. In late 2011, we began the Expression of Interest process to secure a firm to help us conduct further province-wide public engagement. It is expected we will begin this engagement process with our customers in 2012.

- **Reputation:** There is a risk that our reputation, or trust in us, is negatively impacted due to perceived or real breaches in our ability, or the ability of third parties with which we are associated, to conduct business securely, ethically and responsibly, and be customer-focused. Management's risk management framework explicitly considers the impact on our reputation associated with business practices and decisions. Communications to employees, together with risk management training, have reinforced the importance of proactively identifying and assessing reputation risk. Ongoing brand-related work and communications are aimed at building customers' trust and confidence in us.

- **Stakeholder Management:** There is a risk that key stakeholders who influence customers may hinder the ability to achieve our strategy and business model. The stakeholder engagement functions were realigned in 2011 so that we can better engage our stakeholders and business partners to enhance our shared commitment to achieving common business objectives. Implementation of the strategy focused on the framework for identifying key stakeholders and developing engagement plans to address relationship issues and risks with our key stakeholders.

improve employee experience

- **Workforce Planning:** There is a risk that we may not be able to deliver our core business or change initiatives due to alignment, capability, capacity and readiness of our leaders and employees. As we are undergoing business renewal efforts over the next 3-5 years, we are also actively managing workforce capacity and readiness of our leaders and employees to support delivery of our core business and change initiatives. Our business renewal efforts will improve our business processes so that it is easier for our employees to continue to meet customers' needs. In 2011, we communicated the future state business model, including planned changes to the workforce over the next four years to build alignment of employees to changes delivered by the new business model.

  We also continued to develop initiatives within the long-term plan to shape our workforce and culture to align with the company's new business model. We have adopted a five-point employee engagement strategy that supports the 2014 Strategy to improve employee experience while at the same time sets the basis for handling the effect of change on employees arising from the Transformation Program.

maintain financial stability

- Bodily Injury Claims Costs: There is a risk that insurance rates increase at a rate that is unacceptable to customers due to bodily injury claims costs rising at a rate greater than the long-term trend. The Claims Division has developed and implemented a number of strategies and initiatives to help address factors that are within ICBC's control with respect to managing bodily injury claims costs. The strategies focus on: improvements to claims handling, increased management focus on bodily injury claims, and improvements to business indicator reporting and data analysis. To address the rising costs, ICBC continues to build on these three strategies, refining existing programs and introducing new initiatives to ensure that the benefits from claims initiatives remain sustainable over the long term. In addition, we continued to develop strategies to address crashes and claims costs that include public awareness campaigns on high-risk driving, the transition to risk-based pricing and road safety activities. However, the increase in claims costs is not sustainable without a Basic rate increase and in November 2011, ICBC filed a rate application with BCUC. Our priority is to ensure that this rate increase is as low as possible so the impact on our customers is kept to a minimum and we worked hard to reduce our operating costs to the extent they did not contribute to the Basic rate increase.

  This year, we also introduced a new program in the claim centres called "Connecting with your Customer" in order to assist employees to focus on customers' immediate needs and to have the time to help customers better understand the claims process.

- Financial Markets: Like all insurers, we hold investment assets to provide for unpaid claims costs, unearned premiums, and retained earnings. Earnings from these investments contribute to net income. There is a risk that the market value of investments and/or investment income is negatively impacted by adverse changes in market credit or liquidity conditions, equity prices, interest rates or, currency.

  In 2011, current worldwide economic conditions and capital market conditions led to a drop in ICBC's investment income. While our investment returns continue to perform well against the market, we have worked to position our investment portfolio to minimize market risks and protect the current value of our portfolio in the wake of these very challenging market conditions.

  In managing these risks, our investment policy, established by the Investment Committee and approved by the Board of Directors, provides the framework for balancing risks and returns. This policy addresses our risk tolerance and investment goals, and specifies a long-term investment strategy and diversified asset mix to accomplish this. We hold a conservative portfolio with the majority of funds invested in fixed income assets. The policy is based on prudence and regulatory requirements, and provides guidelines for balancing the levels of risk and return in our investment portfolio.

  In addition to the above, our risk management process identified additional potential corporate level risks that are actively monitored and mitigated. These risks and their mitigation strategies are discussed below.

other significant corporate risks

- Business Renewal: There is a risk that we do not deliver on the core capabilities of our business strategy underway due to its size, complexity and inter-dependency with other corporate risks, in particular technology and stakeholder management. The Transformation Program has a comprehensive governance model with strong ownership from the business to foster corporate commitment and collective success. The model includes oversight by a sub-committee of the Board of Directors, a third-party independent risk advisor reporting to the Board, and internal reviews to monitor that the program continues to meets its stated objectives. The progress being made by the program along with costs incurred is monitored closely.

- Technology Risk: There is a risk that information technology solutions and services required to support the changing business environment cannot be delivered in a timely and cost-effective manner, due to insufficient skilled resources, ineffective delivery processes, or gaps in prerequisite technology. We developed long-term technology requirements to address key opportunities to meet our future business needs. This included using proven methods, tools and experienced technology partners to deliver technology solutions within the planned timeframe. As such, the System Integrator (SI) hired is playing an important role in helping ICBC implement new systems and integrate them with our existing and new systems. The SI brings experience with similar, large-scale business renewal programs and our ICBC staff will learn from them as they work together on project teams.

In addition, our technology team launched an internal program in 2011 designed to deliver on our future business needs. The program included the establishment of a workforce plan to manage skills and capabilities needed to support new technology systems, the development of decommissioning strategies and the improvement of delivery methodologies. The completion of these initiatives will help to build an information system organization that is well positioned to achieve our future vision.

- Access to Systems and Privacy Risk: There is a risk that our data and/or system-dependent operations could be intentionally or accidentally compromised due to unauthorized access. We use a combination of preventative and detective controls involving people, process and technology to manage access to systems and data by employees as well as certain business partners (e.g. brokers) and other third parties (e.g. government ministries).

  An annual review of ICBC's Code of Ethics, which includes privacy obligations and guidance governing access and use of corporate data, has been required for all employees and contractors since 2010. In 2011, the Privacy Tutorial was combined with an Information Security Tutorial and the revised tutorial was completed by all active employees and contractors in Q4, 2011. Going forward the tutorial will be mandatory annually for all employees and contractors.

  We have an enterprise-wide Information Technology Security program in place, to govern access to and the use of corporate data. These system access controls include layered defenses, encryption of data on portable media, access approval so that employees only have access to information required for their job function and strong passwords. The policies help to address our privacy obligations and include the responsibilities of employees with respect to access to, and handling of, customer information.

  As with any set of controls, ICBC's controls are designed to reduce the likelihood and impact of certain risks occurring, but are not intended to prevent intentional abuse by properly authorized employees. Unfortunately, a privacy breach occurred in 2011. An external party reviewed the controls and identified opportunities for improvement over controls to access customers' personal information. Work is underway which includes strengthening processes to monitor transactions of authorized users. Security requirements, including the ability to control access, are also considered in the acquisition and implementation of any new software packages.

- Business Interruption: There is a risk that the operations cannot be maintained or essential products and services cannot be provided due to business interruption arising from workforce, physical and/or technical events. This risk is managed through three related programs: Emergency Response Program (employee safety, building evacuations, search and rescue), Business Continuity planning (continued essential customer services during interruption) and Information Technology Disaster Recovery planning (our data centre). We conduct annual tests on components of the plans and make improvements as needed to ensure a successful recovery program.

  In 2011, we successfully relocated our end-of-life Head Office data center to a new shared facility in order to provide a secure and future stable environment for our Information systems. The focus now is on decommissioning the remaining unused equipment in the old data centre facility. The halon fire suppression system was successfully removed from Head Office in late December, eliminating a significant environmental risk to the corporation. A second site recovery data centre will be available for our use by mid 2012. The new facility replaces ICBC's existing recovery program along with providing flexible recovery options for the delivery of our new and existing systems.

- Catastrophic Loss: There is a risk that our capital strength could be eroded in the event of a major disaster. In the event of losses resulting from catastrophes such as an earthquake, we have financial protection through a reinsurance program that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits in any given year.

- Competition: There is a risk that we lose capital strength or profitable market share due to changes in the competitive landscape. Insurance is a complex business affected by external trends, risks, and other factors that can present both significant opportunities and risks for the company. Changing conditions in the Optional insurance market and past profitability in the Canadian P&C insurance industry create a potential for increased competition. The competitive environment continues to evolve as insurers are encouraged to strengthen their capital positions in light of recent economic events. We are moving towards a pricing system that will be better aligned to driver risk to prepare us for potential changes in the competitive landscape. We are introducing tools such as a new rating engine which is a key enabler for future changes to our rating structure. This new modern, flexible technology helps us build the foundation that will allow us to be more responsive to the needs of our customers. It gives us the ability to make product and pricing changes faster which supports our 2014 Strategy by helping improve customer perceptions.

management's discussion and analysis

Our 2011 net income of $140 million was $232 million lower than the 2010 net income of $372 million. This decrease is primarily due to increasing claims costs, lower investment income, and higher acquisition costs. The variances have been summarized in the table below.

($ millions)	2011[1] Actual	2010[1] Actual	Variance
Premiums earned	3,673	3,667	6
Service fees	51	55	(4)
Total earned revenues	**3,724**	**3,722**	2
Net claims incurred[2]	2,866	2,752	(114)
Claims service and loss management	320	330	10
Insurance operations expenses	177	176	(1)
Transformation Program	32	35	3
Premium taxes and commissions[3]	517	477	(40)
Total expenses	**3,912**	**3,770**	(142)
Underwriting loss	**(188)**	**(48)**	(140)
Investment income	441	530	(89)
Income – insurance operations	**253**	**482**	(229)
Non-insurance operations expenses	87	84	(3)
Non-insurance commissions	26	26	–
Net income	**140**	**372**	(232)

[1] *As a government business enterprise, we adopted International Financial Reporting Standards (IFRS) effective January 1, 2011. 2010 financial information has been restated to IFRS for comparative purposes.*

[2] *Claims incurred include prior years' claims adjustments.*

[3] *Premium taxes and commissions include DPAC adjustments.*

premiums

Total premiums earned increased to $3,673 million from $3,667 million in 2010. In 2011, as compared to 2010, the number of policies sold increased by over 41,000 or 1.2% and sales of Optional insurance coverages also increased. These increased sales of policies and coverages were partially offset by the impact of the November 2010 Basic and Optional insurance rate reductions of 2.4% and 3.0% respectively.

service fees

Service fees primarily comprise of interest and other fees received from policyholders who have chosen to finance their insurance premiums over a period of six or 12 months. In 2011, service fees decreased by $4 million from 2010 due to decreasing interest rates.

claims costs

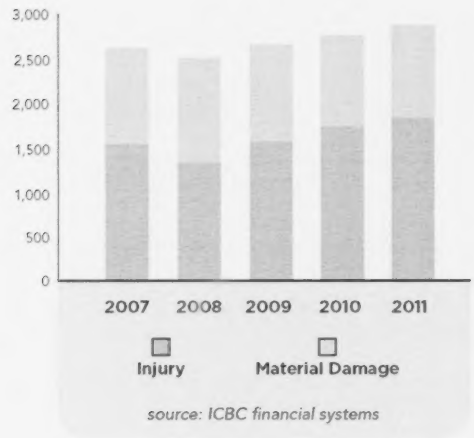
Claims incurred costs account for approximately three-quarters of our total expenditures and are the expected costs to settle claims for all crashes that have occurred during the calendar year, regardless of when the crash is reported to us.

Claims incurred costs are comprised of payments made to settle claims, case adjusters' reserves of the ultimate probable cost of claims, actuarial estimates of claims costs not yet reported, and the actuarial estimate of the additional costs that will be paid out on known claims.

Claims incurred costs are based on the number of claims that take place in a year and the average expected costs to settle those claims. The number of claims is influenced by factors that include driving behaviour, driving experience, weather, and the effectiveness of road safety and loss management programs. The average cost of claims is influenced by factors that include inflation, settlement awards, legal, medical, vehicle repair, and independent adjusting costs.

Overall 2011 net claims incurred costs of $2,866 million were higher than the $2,752 million in 2010 mainly driven by current year claims costs increasing by $126 million compared to 2010, partially offset by a favourable adjustment to the estimation of prior years' claims costs.

net claims incurred costs
($ millions)



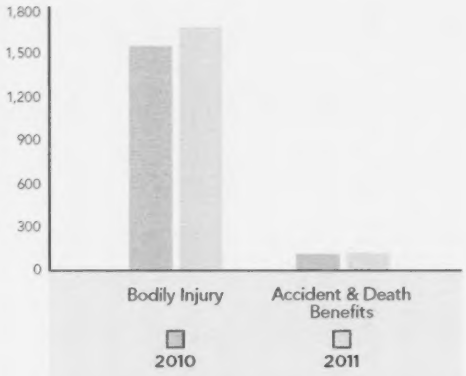
source: ICBC financial systems

For 2011, the total number of injury and material damage claims increased, by 3% and 2% respectively, from 2010. The overall average cost of claims that occurred in 2011 increased by approximately 4% over 2010 resulting from a 5% increase in the average cost of all injury claims partially offset by a 1% decrease in the average cost of material damage claims.

injury claims

Injury claims account for approximately 60% of claims incurred costs in 2011, and include bodily injury claims, and accident and death benefits. Injury claims include amounts for pain and suffering, future care, past and future wage loss, medical expenses, and external claims handling expenses. Overall, the total cost of injury claims increased by 7% in 2011 compared to 2010 reflecting inflationary pressures in the average cost of injury claims combined with an increase in the number of injury claims.

current year injury claims incurred
(major categories)
($ millions)



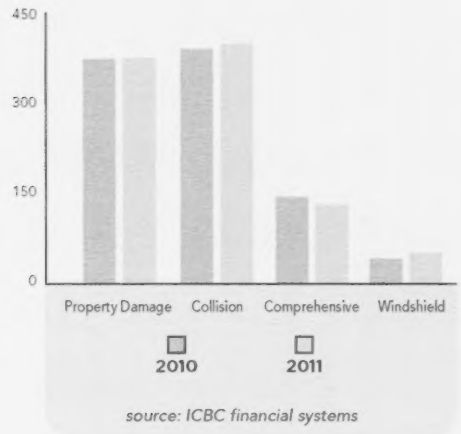
source: ICBC financial systems

Bodily injury claims costs accounted for 93% of all injury claims costs and increased by $131 million to $1,692 million in 2011 compared to 2010. For 2011, the total number of bodily injury claims is higher by 3% when compared to 2010 due in part to higher precipitation in the early months of 2011.

material damage (non-injury) claims

The main categories of material damage claims are property damage, collision, comprehensive, and windshield claims. Overall, the total cost of material damage claims increased less than one per cent in 2011 compared to 2010 due to a small increase in the number of material damage claims compared to 2010. The overall average cost of material damage claims decreased by 1% over amounts recorded for the previous year.

current year material damage claims incurred
(major categories)
($ millions)



source: ICBC financial systems

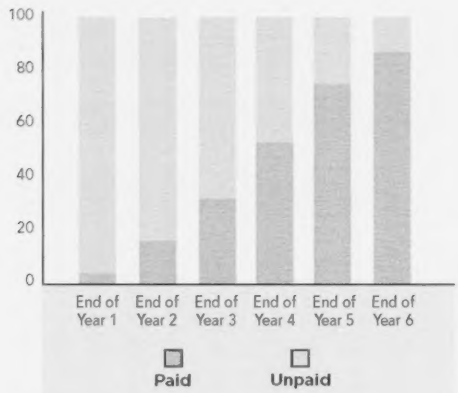
unpaid claims and prior years' claims adjustments

The unpaid claims reserve is the largest liability on our Consolidated Statement of Financial Position and is money set aside in anticipation of future claims payments relating to claims that have already happened. The adequacy of this unpaid claims liability is reviewed and adjusted periodically throughout the year based on revised actuarial estimates which includes a provision for adverse deviation (see Note 2d to the Consolidated Financial Statements).

Adjustments to the prior years' claims reserves are due to the re-estimation of future claims costs for claims in progress and those incurred in prior years but not yet reported. We commission the services of an external appointed actuary to provide an independent assessment of the unpaid claims reserves and, as part of the annual audit of the financial results, the external auditor reviews the adequacy of the unpaid claims reserves.

The estimate of unpaid claims at the end of 2011 was $6,493 million; however, estimates for these future claims costs can change significantly due to the time frame in which certain types of claims are settled, which can be over a number of years. Unpaid bodily injury claims costs account for nearly 89% of total unpaid claims costs. As illustrated in the following chart, only a small percentage of bodily injury claims costs are paid and known in the first year of the claim's occurrence with a greater portion of the costs being an estimate of claims costs payable in future years. As time passes, more claims are paid and more information becomes available, enabling the estimate of the remaining future claims payments to be refined. This results in adjustments to the unpaid claims reserve to reflect the most current forecast of claims costs.

breakdown of bodily injury costs
(typical accident year)
(%)



source: ICBC financial systems

We earn investment income on funds set aside for unpaid claims, between the time that premiums are collected and the time claims are ultimately paid. In accordance with accepted actuarial practice in Canada, we report our unpaid claims balance on a discounted basis to reflect the time value of money. The discounted amount takes into account the expected timing of future payments related to unpaid claims. The discount rate is based on the weighted average of the expected rate of return on our current investment portfolio. An increase in the discount rate applied to claims costs will reduce the unpaid claims balance while a decrease in the discount rate will increase the unpaid claims balance. On a year-over-year basis, we reduced our estimated cost to pay for prior years' claims that are not yet settled, net of discounting adjustment, by $12 million.

road safety and loss management

ICBC invests in road safety initiatives and loss management programs that help reduce claims costs, giving customers the best coverage at the lowest possible price. We work with a network of partners across the province to deliver road safety programs that help protect customers from risks on the road by preventing and minimizing the impact of crashes and crime.

We invested $48 million in road safety and $11 million in loss management programs, which include auto crime and fraud prevention, investigation and detection. We target our road safety investments on the major risks that impact customers and costs in our business, including impaired driving, speeding, distractions, crashes at intersections and the use of occupant restraints. ICBC partnered with the provincial government and the RCMP to upgrade and expand the Intersection Safety Camera program, and 140 sites in 26 communities now have dedicated digital cameras to deter drivers from running red lights. We also have continued our successful partnership with road authorities to reduce crashes at high-risk road locations by sharing the cost of 326 road safety engineering projects.

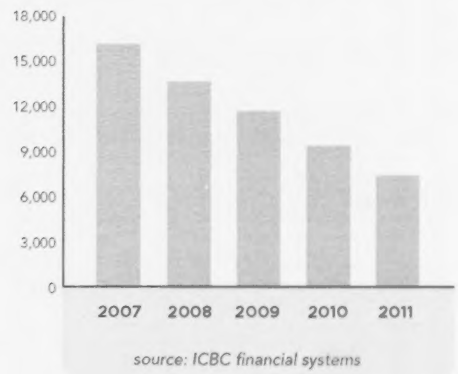
Our auto crime investment continued to effectively decrease auto theft. Support for programs like Bait Car, Stolen Auto Recovery, Auto Crime Enforcement month and an immobilization strategy targeting high-theft vehicles contributed to a 21% claims reduction in auto theft across BC in 2011 from 2010. Since 2003, when auto crime peaked in BC, our combined efforts, including changes in vehicle design such as anti-theft devices, have contributed to a 71% claims reduction in auto theft across the province, as shown in the preceding chart. The reduction in auto crime partially offsets claims cost pressures related to inflationary increases.

We actively pursued our Zero Tolerance for Fraud policy, which protects customers from adverse impacts on premiums when fraud occurs. A Special Investigation Unit manages programs that prevent, detect and investigate fraud in all aspects of our business.

operating costs

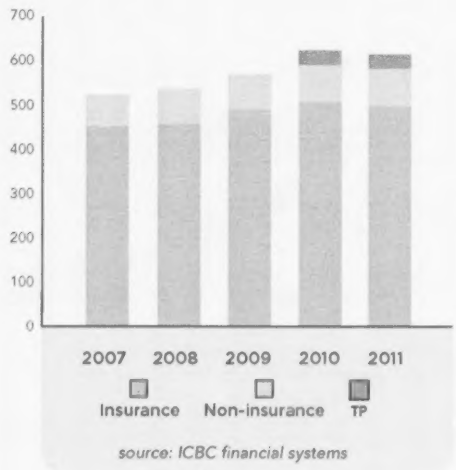
Operating costs are costs (compensation and other costs) required to operate the insurance and non-insurance businesses with the exception of claims payments, commissions and premium taxes. A breakdown of these costs is included in note 16 of the accompanying Consolidated Financial Statements.

total theft of vehicles
(number of claims reported)



source: ICBC financial systems

operating costs
($ millions)



source: ICBC financial systems

Included in total operating costs are non-insurance costs of $86 million, which consist of costs for administering driver licensing, vehicle registration and licensing, and government fines collection. Non-insurance costs are funded from Basic insurance premiums.

We continued to focus on prudently managing our operating costs. General operating costs, excluding the Transformation Program, of $584 million were 1% lower than 2010 due to our efforts in managing operating costs. 2011 was the second year for the Transformation Program, incurring $32 million of expenses.

acquisition costs

Acquisition costs represent the amounts paid to brokers for the sale of our insurance products, and for administering driver and vehicle licensing transactions. Acquisition costs also include premium taxes (4.4% of premiums) collected and paid to the provincial government. Premium acquisition costs were $40 million higher than 2010 primarily due to a higher write-down to DPAC and higher commissions resulting from a slight increase on some commission rates. Consistent with the recognition of premium revenue earned over the duration of the policy, commissions and premium taxes are expensed on a similar basis. At year end, the unexpended portion of these costs are deferred and reflected as DPAC in the amount of $120 million in note 17 of the accompanying Consolidated Financial Statements. DPAC is written down when future claims and related expenses, after consideration of investment income, are expected to exceed unearned premiums. Conversely, where there has been a previous write-down of DPAC, a positive adjustment is made when unearned premiums are expected to exceed future claims and related expenses.

investments

We have an investment portfolio with a carrying value of $11.5 billion which represents 89% of the company's total assets at the end of 2011.

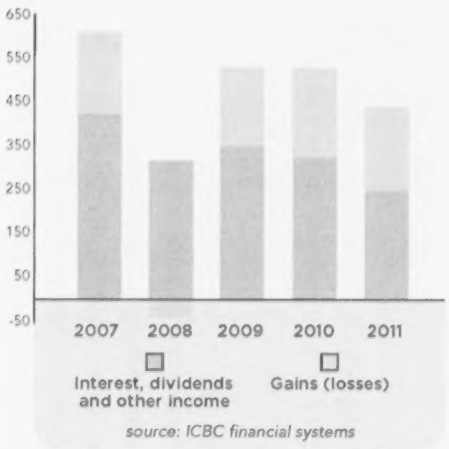
Funds available for investment purposes come primarily from the premiums collected and set aside for unpaid claims, unearned premiums, and retained earnings. We maintain a conservative investment portfolio which has high quality fixed income securities.

At December 31, 2011, 75% of the carrying value of the portfolio took the form of high-grade corporate and government bonds, money market, securities and mortgage instruments, while 25% of the portfolio was invested in equity and real estate investments.

investment income

In 2011, our investment income was $441 million — a decrease of $89 million from 2010. This decrease was primarily due to an impairment provision from a write-down of equity investments with fair values below costs for a prolonged period of time or on a significant basis, combined with a decrease in net realized bond gains, lower interest income as a result of lower bond yields, and a decrease in gains realized on the sale of equities.

investment income
($ millions)



source: ICBC financial systems

Overall, these results equate to an accounting investment return of 4.0% in 2011 compared to 4.7% in 2010, based on the average investment balance during the year on a cost basis. The accounting return is reflective of the lower investment income in 2011 resulting in part from lower interest rates on ICBC's fixed income portfolio as the average size of the investment portfolio remained consistent year-over-year.

equity

Our equity includes retained earnings of $2.7 billion and other components of equity (OCE) of $272 million as at December 31, 2011. Retained earnings help to absorb significant unexpected increases in claims costs and volatility in the financial markets. We have a strong capital base enabling us to withstand adverse claims experience, unfavourable financial market situations which have been volatile in recent years, protect our policyholders and be able to continue to provide our customers with the best coverage at the lowest possible price.

Bonds and equities are measured at fair value on the Consolidated Statement of Financial Position, with changes in fair value (unrealized gains and losses) included in a component of equity called OCE, which decreased from $516 million at January 1, 2011 to $272 million at December 31, 2011. This decrease primarily reflects a decrease in the fair values of our equity portfolio due to the poor performance of the equity markets and the gains realized on the sale of equity investments.

Similar to the private insurance industry, the adequacy of equity or capital base is an important factor in assessing the financial stability of a company and is closely monitored by regulators.

The common industry method used to measure financial stability is the Minimum Capital Test or MCT, a risk-based capital adequacy framework which assesses assets, policy liabilities, and other potential liabilities to determine appropriate capital levels. OSFI requires its regulated P&C insurers to meet MCT targets.

Although not regulated by OSFI, we have established management targets for MCT in excess of ICBC's regulatory targets to take into consideration relevant factors such as business risks and requirements, and the volatility inherent in the insurance business such as changes to claims costs and in the investment markets. We have set an internal management target level for corporate MCT of a minimum of 175% for 2011. At December 31, 2011, our total corporate MCT level of 189% exceeded the management target. For further information on the Basic insurance and Optional insurance capital framework, please refer to notes 19 and 21 of the accompanying Consolidated Financial Statements.

capital expenditures

In 2011, we incurred $86 million in capital expenditures relating to technology enhancements and facilities upgrades. Of these enhancements, $35 million were related to the Transformation Program where we have commenced the implementation of the commercial off-the-shelf products for claims management and insurance rating.

basic and optional operations

We operate as an integrated company providing Basic and Optional insurance products and services. Integrated operations provide benefits to our customers such as ease of service and savings achieved through economies of scale.

The majority of premium revenues and claims costs are specifically identifiable as Basic or Optional; however, certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a financial allocation methodology, as approved by the BCUC, is used to allocate costs between these two lines of business. We operate and manage the company on an integrated basis as well as report our financial and performance results in the annual report on an integrated basis. Detailed financial information on our Basic and Optional lines of business is included in note 21 of the accompanying Consolidated Financial Statements. The following paragraph provides a high-level summary of impacts for both the Basic and Optional lines of business, while the balance of the annual report discusses results based on integrated operations.

The Basic insurance business generated a net loss of $188 million which was $244 million worse than 2010. Basic net income decreased from prior year due to higher injury claims costs, higher acquisition costs and lower investment income as well as the full impact of the 2.4% Basic rate decrease in November 2010. The Optional insurance business generated net income of $328 million in 2011. Optional net income increased $12 million from prior year mainly due to lower injury claims costs and increased sales of certain Optional insurance coverages offset by the full impact of the 3.0% Optional rate decrease in November 2010 and lower investment income.

operating subsidiaries

The Corporation holds each of its investment properties in fully-owned nominee holding companies. All financial information is included in our Consolidated Financial Statements. The Corporation does not have any other active operating subsidiary companies.

summary financial performance and forecast

The table below provides an overview of ICBC's 2011 financial performance relative to its 2011 – 2013 Service Plan and a forecast of financial results for the next three years as set out in ICBC's 2012 – 2014 Service Plan. These results and forecasts form the basis upon which key performance targets are set.

($ millions)	2011 Actual	2011 Plan	Variance	2012 Forecast	2013 Forecast	2014 Forecast
Premiums earned	3,673	3,692	(19)	3,766	3,925	4,015
Service fees	51	49	2	51	51	52
Total earned revenues	**3,724**	**3,741**	(17)	**3,817**	**3,976**	**4,067**
Net claims incurred [1]	2,866	2,816	(50)	2,928	3,034	3,110
Claims service and loss management	320	331	11	328	334	340
Insurance operations expenses	177	206	29	193	206	206
Transformation Program	32	35	3	42	42	39
Premium taxes and commissions [2]	517	471	(46)	449	432	467
Total expenses	**3,912**	**3,859**	(53)	**3,940**	**4,048**	**4,162**
Underwriting loss	**(188)**	**(118)**	(70)	**(123)**	**(72)**	**(95)**
Investment income	441	527	(86)	390	426	451
Income – insurance operations	**253**	**409**	(156)	**267**	**354**	**356**
Non-insurance operations expenses	87	93	6	94	96	98
Non-insurance commissions	26	26	–	27	28	29
Net income	**140**	**290**	(150)	**146**	**230**	**229**
Excess Optional capital transfer to the Province of British Columbia	101	185	84	181	165	151
Long-term debt	Nil	Nil		Nil	Nil	Nil

[1] *Claims incurred include prior years' claims adjustments.*
[2] *Premium taxes and commissions include deferred premium acquisition cost adjustments.*

comparison of 2011 results to the plan

Our net income for 2011 was $140 million, which was $150 million lower than plan. Earned revenues decreased by $17 million from 2011 plan mainly due to lower than expected vehicle growth and lower average premiums. Investment income was $86 million lower than plan resulting from an impairment provision from the write-down of equity investments, lower than planned gains on the sale of equities due to market volatility and lower bond interest income caused by a decline in the yield earned on the bond portfolio partially offset by gains realized on sale of bonds.

Overall, net claims incurred costs were $50 million higher than plan. This was due to current year claims costs being higher than plan resulting from higher frequency of injury claims and a higher unfavourable discounting adjustment resulting from a lower discount rate. The increase in current year claims costs and the unfavourable discounting adjustment was partially offset by lower expected costs to settle outstanding prior years' claims.

Operating costs of $497 million, inclusive of claims service, road safety and loss management, and insurance operations expenses, were $40 million below plan due to the initiation of a suite of cost control measures to reflect our continued commitment to prudent management of costs. The Transformation Program is a multi-year initiative. Transformation Program expenses of $32 million were also $3 million lower than plan due to timing of some project elements. Premium taxes and commissions of $517 million were $46 million higher than plan due to an unfavourable DPAC adjustment. This was due to the decreased profitability in the Basic insurance business from higher expected future injury claims costs (see page 35 for further discussion of DPAC).

The excess Optional capital transfer to the Province of BC is lower than plan due to lower other comprehensive income primarily from a decrease in the amount of unrealized gains in the investment portfolio and an increase in the Optional MCT target resulting from a reassessment of our capital position and the appropriateness of our management targets as evaluated by the actuaries.

financial forecasts

Our financial forecasts take into consideration the business risks and risk mitigation strategies currently in place. The net income forecast for 2012 – 2014 reflects expected growth in premiums, a return to longer term claims cost trends, and investment income based on current investment market conditions. Capital expenditures are primarily comprised of Transformation Program costs and the ongoing renewal of information technology and facilities. The forecast also takes into account the estimates of excess Optional capital transfer to the Province of BC. More detailed information on ICBC's forecasts is provided in ICBC's 2012 – 2014 Service Plan.

management's responsibility for financial statements

Scope of Responsibility

Management prepares the accompanying consolidated financial statements and related information and is responsible for their integrity and objectivity. The statements are prepared in conformity with International Financial Reporting Standards. These consolidated financial statements include amounts that are based on management's estimates and judgements, particularly our reserves for unpaid claims. We believe that these statements present fairly ICBC's financial position, results of operations, and cash flows, and that the other information contained in the annual report is consistent with the consolidated financial statements.

Internal Controls

We maintain and rely on a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. The system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors, who independently review and evaluate these controls. There is a quarterly risk assessment process, the results of which influence the development of the internal audit program. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Policies that require employees to maintain the highest ethical standards have also been instituted. We recognize the inherent limitations in all control systems and believe our systems provide an appropriate balance between costs and benefits desired. We believe our systems of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

Board of Directors and Audit Committee

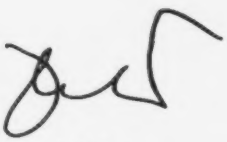
The Audit Committee, composed of members of the Board of Directors, oversees management's discharge of its financial reporting responsibilities. The Committee recommends for approval to the Board of Directors the appointment of the external auditors and the external actuaries. The Committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors to discuss auditing, financial reporting and internal control matters. The Audit Committee receives regular reports on the internal audit results and evaluation of internal control systems and it reviews and approves major accounting policies including alternatives and potential key management estimates or judgements. Both internal and external auditors have access to the Audit Committee without management's presence. The Audit Committee has reviewed these financial statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

Independent Auditor and Actuary

Our independent auditor, PricewaterhouseCoopers LLP, has audited the financial statements. Their audit was conducted in accordance with Canadian generally accepted auditing standards, which includes the consideration of our internal controls to the extent necessary to form an independent opinion on the financial statements prepared by management.

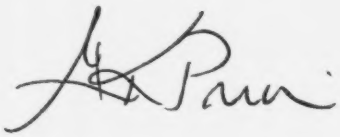
Eckler Ltd. is engaged as the appointed actuary and is responsible for carrying out an annual valuation of ICBC's policy liabilities which include a provision for claims and claims expenses, unearned premiums and deferred premium acquisition costs. The valuation is carried out in accordance with accepted actuarial practice and regulatory requirements.

In performing the evaluation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of ICBC and the insurance policies in force. The actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the external auditor.



Jon Schubert
President and Chief Executive Officer

March 21, 2012



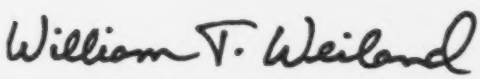
Geri Prior
Chief Financial Officer

March 21, 2012

actuary's report

I have valued the policy liabilities in the consolidated statement of financial position of the Insurance Corporation of British Columbia as at December 31, 2011 and their changes in its consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policy obligations, and the consolidated financial statements fairly present the results of the valuation.



William T. Weiland

Fellow, Canadian Institute of Actuaries
Eckler Ltd.

Vancouver, British Columbia
March 21, 2012

independent auditor's report

Minister of Finance and Deputy Premier
Minister Responsible for the Insurance Corporation of British Columbia
Province of British Columbia

We have audited the accompanying consolidated financial statements of the Insurance Corporation of British Columbia and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Insurance Corporation of British Columbia and its subsidiaries as at December 31, 2011, December 31, 2010, and January 1, 2010 and their financial performance and their cash flows for the years then ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 21, 2012

Consolidated Statement of Financial Position

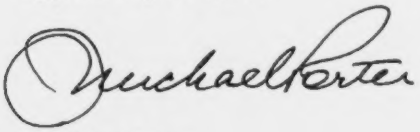
As at December 31, 2011

($ THOUSANDS)	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash and cash equivalents	$ 23,844	$ 20,977	$ 23,102
Accrued interest	39,800	50,148	57,950
Financial investments (note 6)	10,969,366	11,130,693	10,834,454
Premiums and other receivables (note 8)	1,092,604	1,017,536	1,025,140
Reinsurance assets (note 8)	691	5,839	9,993
Investment properties (note 6)	483,028	426,258	313,354
Property and equipment (note 10)	134,260	100,925	86,463
Intangible assets (note 11)	55,076	21,321	5,645
Deferred premium acquisition costs and prepaids (note 17)	129,464	184,298	207,104
	$ 12,928,133	$ 12,957,995	$ 12,563,205
Liabilities and Equity			
Liabilities			
Cheques outstanding	$ 55,512	$ 57,896	$ 41,723
Accounts payable and accrued charges	228,807	221,904	240,353
Excess Optional capital payable to Province of BC (note 18)	101,386	275,712	–
Bond repurchase agreements and investment-related liabilities	986,530	954,878	908,431
Premiums and fees received in advance	60,406	57,876	55,888
Unearned premiums (note 13)	1,762,626	1,743,001	1,730,958
Accrued pension and post-retirement benefits (note 15)	313,673	264,634	193,272
Provision for unpaid claims (note 12)	6,492,719	6,183,007	5,964,342
	10,001,659	9,758,908	9,134,967
Equity			
Retained earnings	2,654,079	2,683,364	2,978,952
Other components of equity	272,395	515,723	449,286
	2,926,474	3,199,087	3,428,238
	$ 12,928,133	$ 12,957,995	$ 12,563,205

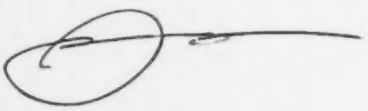
Contingent liabilities and commitments (note 20)

The accompanying notes are an integral part of these financial statements.

Approved by the Board



T. Michael Porter
Vice-Chair of the Board of Directors



William Davidson
Director

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2011

($ THOUSANDS)	2011	2010
Premiums written		
Premium revenue – vehicle	$ 3,676,747	$ 3,669,308
Premiums ceded to reinsurers – vehicle	(9,005)	(11,638)
Net premium revenue – vehicle	3,667,742	3,657,670
Premium revenue – driver	25,094	21,697
	3,692,836	3,679,367
Revenues		
Premiums earned		
Premium revenue – vehicle	3,658,261	3,659,633
Premiums ceded to reinsurers – vehicle	(9,005)	(11,638)
Net premium revenue – vehicle	3,649,256	3,647,995
Premium revenue – driver	23,954	19,329
	3,673,210	3,667,324
Service fees	50,352	54,628
Total earned revenues	3,723,562	3,721,952
Claims and operating costs		
Provision for claims occurring in the current year (note 12)	2,880,130	2,754,077
Change in estimates for losses occurring in prior years (note 12)	(14,392)	(2,039)
Net claims incurred (note 12)	2,865,738	2,752,038
Claims services (note 16)	262,247	269,227
Road safety and loss management services (note 16)	58,578	60,226
	3,186,563	3,081,491
Operating costs – insurance (note 16)	208,285	211,245
Premium taxes and commissions – insurance (note 16 & 17)	517,361	477,195
	3,912,209	3,769,931
Underwriting loss	(188,647)	(47,979)
Investment income (note 9)	441,480	530,319
Income – insurance operations	252,833	482,340
Non-insurance operations		
Provincial licences and fines (note 18)	550,383	531,253
Licences and fines transferable to the Province of BC (note 18)	550,383	531,253
Operating costs – non-insurance (note 16)	86,400	84,318
Commissions – non-insurance (note 16 & 17)	26,292	25,821
	663,075	641,392
Loss – non-insurance operations	(112,692)	(110,139)
Net income	$ 140,141	$ 372,201
Other comprehensive income		
Net change in available for sale financial assets	$ (243,328)	$ 66,437
Pension and post-retirement benefits actuarial loss	(68,040)	(92,077)
	(311,368)	(25,640)
Total comprehensive income	$ (171,227)	$ 346,561

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2011

($ THOUSANDS)	2011 Retained Earnings	2011 Other Components of Equity	2011 Total Equity
Balance, beginning of year	$ 2,683,364	$ 515,723	$ 3,199,087
Comprehensive income			
Net income	140,141	–	140,141
Other comprehensive income			
Net gains reclassified to investment income	–	(148,055)	(148,055)
Net losses arising on available for sale financial assets in the year	–	(95,273)	(95,273)
Pension and post-retirement benefits actuarial loss	(68,040)	–	(68,040)
Total other comprehensive income	(68,040)	(243,328)	(311,368)
Total comprehensive income	72,101	(243,328)	(171,227)
Excess Optional capital transfer to Province of BC (note 18)	(101,386)	–	(101,386)
Balance, end of year	$ 2,654,079	$ 272,395	$ 2,926,474

($ THOUSANDS)	2010 Retained Earnings	2010 Other Components of Equity	2010 Total Equity
Balance, beginning of year	$ 2,978,952	$ 449,286	$ 3,428,238
Comprehensive income			
Net income	372,201	–	372,201
Other comprehensive income			
Net gains reclassified to investment income	–	(199,505)	(199,505)
Net gains arising on available for sale financial assets in the year	–	265,942	265,942
Pension and post-retirement benefits actuarial loss	(92,077)	–	(92,077)
Total other comprehensive income	(92,077)	66,437	(25,640)
Total comprehensive income	280,124	66,437	346,561
Excess Optional capital transfer to Province of BC (note 18)	(575,712)	–	(575,712)
Balance, end of year	$ 2,683,364	$ 515,723	$ 3,199,087

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended December 31, 2011

($ THOUSANDS)	2011	2010
Cash flow from operating activities		
Cash received for:		
Vehicle premiums and others	$ 4,006,603	$ 4,025,717
Licence fees	514,409	502,580
Taxes on vehicle sales and rebates	186,879	128,982
	4,707,891	4,657,279
Collection for receivables, subrogation, and driver penalty point premiums	170,089	152,641
Reinsurance recoveries	731	4,528
Salvage sales	64,106	51,984
Interest	295,031	317,782
Dividends and other investment income	33,831	34,777
Other	29	273
	5,271,708	5,219,264
Cash paid to:		
Claimants or third parties on behalf of claimants	(2,698,137)	(2,669,626)
Federal Government and the Province of BC for licence fees, fines, and taxes collected	(674,765)	(637,508)
Reinsurers for reinsurance premiums	(9,114)	(11,589)
Suppliers of goods and services	(223,192)	(203,793)
Employees for salaries and benefits	(466,198)	(464,594)
Agents for commissions	(325,026)	(311,009)
Policyholders for premium refunds	(315,916)	(321,731)
Province of BC for premium taxes	(165,114)	(163,722)
	(4,877,462)	(4,783,572)
Cash flow from operating activities	394,246	435,692
Cash flow used in investing activities		
Purchase of financial investments and investment properties	(8,371,556)	(7,380,203)
Proceeds from sales of financial investments and investment properties	8,328,872	7,253,020
Net securities sold under repurchase agreements	15,363	17,773
Purchase of property, equipment and intangibles	(86,833)	(44,607)
Proceeds from sales of property, equipment and intangibles	871	27
Cash flow used in investing activities	(113,283)	(153,990)
Cash flow used in financing activities		
Excess Optional capital transferred to Province of BC (note 18)	(275,712)	(300,000)
Cash flow used in financing activities	(275,712)	(300,000)
Increase (decrease) in cash and cash equivalents during the year	5,251	(18,298)
Cash and cash equivalents, beginning of year	(36,919)	(18,621)
Cash and cash equivalents, end of year	$ (31,668)	$ (36,919)
Represented by:		
Cash (note 7)	$ 23,844	$ 20,977
Cheques outstanding	(55,512)	(57,896)
Cash and cash equivalents, net	$ (31,668)	$ (36,919)

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

For the year ended December 31, 2011

1. Corporate Information

The Insurance Corporation of British Columbia (the Corporation or ICBC) is a Crown corporation, not subject to income taxes under the *Income Tax Act (Canada)*, incorporated in 1973 and continued under the *Insurance Corporation Act*, R.S.B.C. 1996 Chapter 228. The head office of the Corporation is 151 West Esplanade, North Vancouver, British Columbia. The Corporation operates and administers plans of universal compulsory automobile insurance and optional automobile insurance as set out under the *Insurance (Vehicle) Act*, and is also responsible for non-insurance services under the *Insurance Corporation Act* and the *Motor Vehicle Act*. Non-insurance services include driver licensing, vehicle registration and licensing, violation ticket administration and government fines collection. As a result of amendments to the *Insurance Corporation Act* in 2003, the Corporation is subject to regulation by the British Columbia Utilities Commission (BCUC) with respect to universal compulsory automobile insurance rates and services (note 21).

Universal compulsory automobile insurance (Basic) includes the following coverages: $200,000 third party liability protection (higher for some commercial vehicles), access to accident benefits including a maximum of $150,000 for medical and rehabilitation expenses and up to $300 per week for wage loss, $1,000,000 underinsured motorist protection, and also protection against uninsured and unidentified motorists within and outside the Province of BC. The Corporation also offers insurance in a competitive environment (Optional), which includes, but is not limited to, the following coverages: extended third party liability, comprehensive, collision, and loss of use. The Corporation's Basic and Optional insurance products are distributed by approximately 900 independent brokers located throughout the Province of BC. The Corporation has the power and capacity to act as an insurer and reinsurer in all classes of insurance; however, the Corporation currently only acts as a primary automobile insurer.

These consolidated financial statements have been authorized for issue by the Board of Directors on March 1, 2012.

2. Summary of Significant Accounting Policies

The significant accounting policies applied in preparation of these consolidated financial statements are set out below. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of reporting

The consolidated financial statements of the Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and required by the *Budget Transparency and Accountability Act*. The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary companies. The Corporation's reporting currency and functional currency of all of its operations is the Canadian dollar, unless otherwise stated. The Corporation reports revenues and expenses attributable to Basic insurance separately from the other operations of the Corporation (note 21). The Corporation also provides a number of non-insurance services on behalf of the Province of BC, which includes driver licensing, vehicle registration and licensing, violation ticket administration and government fines collection. The costs associated with these non-insurance activities are borne by the Corporation. The amounts collected and remitted as well as the related costs are accounted for and disclosed separately in the consolidated statement of comprehensive income for greater transparency.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The Corporation's financial statements were prepared in compliance with Canadian Generally Accepted Accounting Principles (GAAP) Part V Pre-changeover Accounting Standards prior to 2011. In areas where Part V GAAP differs from IFRS, management has amended certain accounting and valuation methods to comply with IFRS. The comparative figures in respect of prior years are amended to reflect these adjustments. The effect of transition from Part V GAAP to IFRS is disclosed in note 4.

b) Basis of consolidation

The Corporation consolidates the financial statements of all subsidiary companies over which it has control. Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. Each of the Corporation's investment properties are held individually in fully owned nominee holding companies. The Corporation does not have any other active operating subsidiary companies. All significant inter-company transactions and balances are eliminated.

c) Service fees

Service fees on the Corporation's Payment Plan are recognized monthly over the term of the policy. For six or twelve month term Autoplan policies, the Corporation's Payment Plan enables customers to make monthly or quarterly payments. The related interest bearing receivables are carried at amortized cost as determined using the effective interest rate.

d) Insurance contracts

The Corporation issues insurance contracts that transfer insurance risk which results in the possibility of having to pay benefits on the occurrence of an insured event. The Corporation accounts for insurance contracts as follows:

Premiums earned

The Corporation recognizes vehicle premiums on a straight-line basis over the term of each vehicle policy written. The driver premiums are earned over the driver's penalty point year. Unearned premiums are the portion of premiums relating to the unexpired term, net of any premium refunds.

Deferred premium acquisition costs

To the extent premium acquisition costs such as commissions and premium taxes are recoverable from unearned premiums, they are deferred and amortized to income over the term of the related policies. An actuarial evaluation is performed to determine the amount allowable for deferral. The method followed in determining the deferred costs limits the amount of the deferral to the amount recoverable from unearned premiums derived from each of the Basic and Optional coverages, after giving consideration to the investment income, claims costs, and adjustment expenses expected to be incurred as the premiums are earned. A premium deficiency exists when future claims and related expenses are expected to exceed unearned premiums. Premium deficiencies are recognized first by writing down the deferred premium acquisition costs with any remaining premium deficiency recognized as a liability. The Corporation presents deferred premium acquisition costs and any premium deficiency reserves on a net corporate basis in the consolidated statement of financial position.

Provision for unpaid claims

The provision for unpaid claims represents the estimated amounts required to settle all unpaid claims. It includes amounts for claims that are incurred but not reported (IBNR) plus development on known case reserves and loss adjustment expenses, and is gross of the recovery from reinsurance. Claims liabilities are established according to accepted actuarial practice in Canada. They are carried on a discounted basis and therefore reflect the time value of money, and include a provision for adverse deviations (PFAD).

To recognize the uncertainty in establishing best estimates, as set out in the Standards of Practice of the Canadian Institute of Actuaries, the Corporation includes a PFAD, consisting of three elements: an interest rate margin, a reinsurance margin and a claims development margin. An interest rate margin reflects uncertainty in the investment portfolio yield and the investment climate in general and is a reduction from the expected investment rate of return per annum. A reinsurance margin reflects uncertainty in recoverable amounts from reinsurers and is a reduction in the expected amount of reinsurance recoverable. A claims development margin reflects uncertainty relating to the longer term outcome of the Corporation's claims practices, the underlying data and the nature of the lines of business written. The claims development margin is a percentage of the unpaid claims gross of reinsurance, excluding the PFAD and is larger for injury lines as a longer period of time elapses before the claims settle and close.

As with any insurance company, the provision for unpaid claims is an estimate subject to volatility, which could be material in the near term. The estimation of claims development involves assessing the future behaviour of claims, taking into consideration the consistency of the Corporation's claims handling procedures, the amount of information available, and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates will be. Variability can be caused by receipt of additional information, significant changes in the average cost or frequency of claims over time, the timing of claims payments, and future rates of investment return.

The ultimate cost of long settlement term claims is particularly challenging to predict for several reasons, which include some claims not being reported until many years after a policy term, or changes in the legal environment, case law or legislative amendments. The Corporation is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the provision for unpaid claims and other liabilities. Provisions for such difficult to estimate liabilities are established by examining the facts of tendered claims and are adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns, current socio-economic trends and structured settlements provided in the form of consistent periodic payments as opposed to lump sum payments.

The Corporation also assesses the adequacy of the insurance liabilities in relation to estimated future cash flows at the end of each reporting period. All changes to the estimate are recorded in the current period as a Change in Estimates for Losses Occurring in Prior Years. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

Reinsurance

Reinsurance balances are presented on the consolidated statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders, and on the consolidated statement of comprehensive income on a gross basis to indicate the results of its retention of premiums written.

The amount of reinsurance recoverable from reinsurers is recorded as an asset on the consolidated statement of financial position. A PFAD is included in the discounted amount recoverable from reinsurers. The PFAD is applied on a consistent basis with the underlying provision for unpaid claims and includes a reinsurance recovery portion that reflects considerations relating to potential collectability issues with reinsurers.

e) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are subject to insignificant changes in fair value, including cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty and money market securities with a term less than 90 days from the date of acquisition.

f) Investments

The Corporation designates its financial instruments as fair value through profit or loss (FVTPL), available for sale (AFS) or loans and receivables (loans) depending upon the purpose for which the financial assets were acquired. Monetary assets are assets that are to be received in a fixed or determinable number of units of currency. Monetary financial assets include bonds and non-monetary financial assets include equities. The Corporation's financial assets are accounted for based on their classification as follows:

Fair Value Through Profit or Loss

The Corporation's cash and cash equivalents (note 2e) are accounted for as FVTPL. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term.

FVTPL financial assets are recorded at fair value on initial recognition and for subsequent measurement. Transaction costs and changes in the fair value are recognized in investment income.

Available for Sale

Non-derivative financial assets that are not classified as loans or FVTPL are accounted for as AFS. The Corporation has designated its money market securities with a term greater than 90 days from the date of acquisition, and its bond and equity portfolios as AFS.

AFS financial assets are recorded at fair value on initial recognition and for subsequent measurement. Transaction costs are included in the initial carrying amount of the assets.

Changes in the fair value of an AFS non-monetary financial asset are recorded in other comprehensive income (OCI), until the financial asset is disposed of or becomes impaired, at which time the gain or loss will be recognized in investment income. Changes in the fair value due to foreign exchange on a non-monetary AFS financial asset are recorded in OCI; changes in fair value due to foreign exchange on a monetary AFS financial asset are recorded in investment income. Interest calculated using the effective interest method is accrued daily and recognized in investment income. Dividends are recognized in investment income when the right to receive payments is established, on the ex-dividend date.

Loans and Receivables

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation has designated its mortgage portfolio and premiums and other receivables as loans.

Loans are recorded at fair value on initial recognition and subsequently measured at amortized cost. Transaction costs are included in the initial carrying amount of the assets.

Mortgages not traded in an active market are subsequently carried at amortized cost using the effective interest rate method. Impairment losses on mortgages are recognized in investment income.

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred along with substantially all the risks and rewards of ownership.

g) Translation of foreign currencies

Foreign currency transactions are translated at exchange rates at the date of the sale or purchase. Foreign currency assets and liabilities considered as monetary items are translated at exchange rates in effect at the year-end date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in investment income.

Translation differences on non-monetary AFS financial assets, such as equity securities, are recognized as part of the change in fair value in OCI until the security is disposed of or an impairment is recorded.

h) Fair value of financial assets

In accordance with IFRS 7 *Financial Instruments: Disclosures*, the Corporation defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is classified as Level 1, 2, or 3 based on the degree to which fair value is observable:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs to the valuation methodology include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs to the valuation methodology are not based on observable market data.

Where an active market does not exist, and quoted bid prices are unavailable, fair values are determined using valuation techniques that refer to observable market data. Where observable market data is unavailable, the estimated fair value is determined using valuation techniques.

The estimated fair value of money market securities greater than 90 days, which are not considered cash and cash equivalents, is cost. The estimated fair value for bonds and equities is based on quoted bid prices or on other observable market information, where available. The estimated fair value for mortgages is based upon the net present value of the payment stream using mortgage rates currently available.

These valuations are reviewed each reporting date by management.

i) Investment properties

Properties held for rental income or capital appreciation that are not occupied by the Corporation are classified as investment properties.

The estimated fair value of ICBC's investment properties is based on independent appraisals by professionally qualified external valuators made during the year, and when not available, on discounted cash flows using current market capitalization rates.

The Corporation has certain properties that serve dual purposes, investment and own-use portions. If the investment and own-use portions can be sold separately or leased out separately under a finance lease, the portions are accounted for separately. If the portions cannot be sold or leased separately, the property is investment property only if an insignificant portion is held for own-use in the supply of services or for administrative purposes. Where the portion held for own-use is significant then it would be treated as property and equipment.

Investment properties comprise land and buildings and are initially recognized at the fair value of the purchase consideration plus directly attributable costs. Subsequent to initial recognition, the investment properties are carried at cost less accumulated depreciation for the building portion and impairment, if any.

Depreciation is provided on a straight-line basis at 2.5% to 5.0% annually over the investment properties' useful life.

j) Bond repurchase agreements

The Corporation participates in the sale and repurchase of Government of Canada and Provincial bonds which are sold and simultaneously agreed to be repurchased at a future date with the market repurchase rate determining the forward contract price. These sale and repurchase arrangements are accounted for as financial liabilities and are initially and subsequently measured at fair value. The difference between the sale price and the agreed repurchase price on a repurchase contract is recognized as interest expense. Assets transferred under repurchase agreements are not derecognized as substantially all the risks and rewards of ownership are retained by the Corporation and a liability equal to the consideration received has been recorded.

k) Investment-related liabilities

Investment-related liabilities include mortgage debt associated with investment properties (note 2i) and are initially recognized at fair value and subsequently measured at amortized cost.

l) Accounts payable and accrued charges

Accounts payable and accrued charges are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year and non-current if payment is due after one year. Accounts payable and accruals are recognized initially at fair value and subsequently measured at cost.

m) Pension and post-retirement benefits

The amounts recognized in net income in respect of defined benefit pension plans and post-retirement health benefits are as follows:

- The Corporation's portion of the current service cost;
- Interest cost;
- Expected return on plan assets;
- Past service cost; and
- Impact of any curtailment or settlements during the period

The current service cost is equal to the present value of benefits earned by members during the period.

The interest cost is calculated using the discount rate at the beginning of the period and the defined benefit obligations.

The expected return on plan assets is calculated using the expected long-term rate of return on plan assets and the fair value of the assets.

Past service costs arise from plan amendments. Past service cost for vested plan benefits are recognized immediately in net income. Past service costs for non-vested plan benefits are recognized in net income on a straight-line basis over the remaining period of service until such benefits vest.

The change in the defined benefit obligations and the changes in the fair value of plan assets that result from a curtailment or settlement of plan liabilities during the period are recognized in net income.

A plan's surplus is equal to the excess, if any, of the plan's assets over its obligation. For plans in surplus, an asset is recognized on the consolidated statement of financial position to the extent that the Corporation can realize an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the plan or when the plan liabilities are settled. For plans in deficit, the resulting net liability is recognized on the consolidated statement of financial position.

The value recognized on the consolidated statement of financial position for each defined benefit pension plan and for post-retirement benefits is calculated at the end of the reporting period as follows:

- The defined benefit obligation of the plan;
- Less any past service costs not yet recognized;
- Less the fair value of the plan assets out of which the obligations are to be settled directly; and
- Less the impact of any surplus derecognized

The Corporation recognizes all actuarial gains and losses in OCI in the year in which they arise, through the consolidated statement of comprehensive income.

Certain current and former employees of the Corporation who were formerly employed in the Motor Vehicle Branch are members of a separate plan, the BC Public Service Pension Plan. This is a multi-employer plan for which the Corporation

applies defined contribution accounting. Since the BC Public Service Pension Plan pools risks amongst the current and former members of many employers, there is no consistent or reliable basis for allocating the Corporation's portion of the obligation, assets and costs. As a result, the Corporation expenses the contributions made. Contributions are subject to change in the future depending on the funded status of the plan.

n) Property and equipment

Property and equipment are initially recorded at fair value and subsequently measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the items including retirement costs. Subsequent costs such as betterments are included in the asset only when it is probable that future economic benefits associated with the item will flow to the Corporation. All other subsequent expenditures are recognized as repairs and maintenance. Capitalized software that is an integral part of the equipment is accounted for as equipment.

Property and equipment is depreciated when it is available for use on a straight-line basis over the estimated useful life of each asset, taking into account the residual value, at the following annual rates:

- Buildings 5% to 10%
- Furniture and equipment 10% to 33%
- Leasehold improvements Term of the lease

The assets' residual values and useful lives are reviewed annually and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and recorded in net income.

o) Intangible assets

Capitalized software that is not an integral part of the equipment is accounted for as an intangible asset. Software development costs, which are comprised of labour and material costs for design, construction, testing, and other costs directly attributable to bringing the asset to a condition where it can be applied in its intended use, are capitalized for major infrastructure projects expected to be of continuing benefit to the Corporation, or expensed where the potential future benefits are uncertain or not quantifiable.

Finite life intangible assets are initially recorded at fair value and subsequently carried at cost less accumulated amortization and impairment losses. Intangible assets with finite useful lives are amortized over their estimated useful lives when they are available for use on a straight-line basis at 10% – 33%, taking into account the residual value.

p) Impairment of assets

Impairment of financial assets

Financial assets not carried at FVTPL are assessed at each reporting date to determine if there is objective evidence of impairment such as deterioration in the financial health of the investee, industry and sector performance, changes in technology, financing and operational cash flows, and significance of fair value declines. In addition, for equity investments a prolonged decline is also considered objective evidence of impairment. Where objective evidence of impairment exists and where material, an impairment loss will be recognized as follows:

i. For AFS financial assets, the related unrealized loss charged to OCI is reclassified to investment income.

ii. For loans and receivables, the related difference between the amortized cost carrying amount and the fair value, calculated as the present value of the estimated future cash flows, directly from the loan or the sale of collateral, discounted at the asset's original effective interest rate, is recognized in investment income.

If the fair value of a previously impaired monetary AFS financial asset or a financial asset measured at amortized cost increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed in investment income. Impairment losses on non-monetary AFS financial assets such as equity securities are not reversed.

Impairment of non-financial assets

The Corporation's non-financial assets consist primarily of investment properties, property and equipment and intangible assets. An impairment review is carried out at the end of each reporting period to determine if there are any indicators of impairment. When indicators of impairment exist, the Corporation assesses the asset for impairment. Investment properties are assessed for impairment as separate and identifiable cash generating units, distinct from the other operations of the Corporation. All other assets are assessed as a group as their cash flows are generated from the operations of the Corporation. If an asset is impaired, the Corporation's carrying amount is written down to

its estimated recoverable amount when material. Recoverable amount is the higher of fair value less costs to sell and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. If there is a change in estimate of the recoverable amount, an impairment loss is reversed to net income only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation, if no impairment loss had been recognized.

3. Critical Accounting Estimates and Judgments

The Corporation makes estimates and judgments that affect the reported amounts of assets and liabilities. These are continually evaluated and based on historical experience and other facts, including expectations of future events that are believed to be reasonable under the circumstances. Management believes its estimates and judgments to be appropriate; however, actual results may be materially different and would be reflected in future periods.

Significant accounting estimates and judgments include:

a) Actuarial methods and assumptions

The Corporation typically employs three standard actuarial methods to analyze the ultimate claims costs:

- The incurred development method;
- The paid development method; and
- The Bornhuetter-Ferguson method

These methods call for a review of historical loss and count development patterns. As part of this review, the Corporation calculates loss and count development factors, which represent the year-to-year changes in a given accident year's incurred loss amount. Based on an examination of the loss development factors, the Corporation's actuaries select their best estimate of development factors that forecast future loss development.

The loss and count development factors rely on a selected baseline. The baseline for the majority of the coverages is the average of the most recent four accident years. The use of a baseline helps maintain consistency in the loss and count development factors from one reserve review to another. Adjustments to the baseline selection are made when circumstances warrant a departure. Circumstances may include a change in the claims settlement environment, a change in the handling or reserving of claims, or an emerging trend in the statistical data used in the analysis.

The timing of when the unpaid ultimate claims costs will be paid depends on both the line of business and historical data. Bodily injury lines of business generally take longer to settle than the material damage claims and exhibit greater variability as to the timing and amount ultimately paid to settle the claim. Historical patterns of claims payment data are used to estimate the future claims payment pattern. Expected future paid amounts are then discounted, using the discounted cash flow method, to a present value as of the reporting date. The discount rate is based on the Corporation's current portfolio yields for fixed income investments and investment properties and a long-term yield assumption for equity investments. These estimates are based on current market returns as well as expectations about future economic and financial developments.

A PFAD is then added to the estimate to recognize sources of uncertainty in the assumptions behind the provision for unpaid claims. The PFAD is calculated according to accepted actuarial practice in Canada.

b) Impairment of financial assets

Judgment is required to determine if there is objective evidence of impairment for financial assets. The Corporation evaluates, among other factors, the financial health of the investee, industry and sector performance, changes in technology, financing and operational cash flows, and the significance of fair value declines. In addition, for equity investments a prolonged decline is also considered objective evidence of impairment.

c) Accrued pension and post-retirement benefits

The cost of pension and post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of expected plan investment performance, compensation levels and healthcare costs.

The key assumptions used in calculating the cost of pension and post-retirement benefits are the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, inflation rate, Medical Service Plan trends and extended healthcare cost trends. Together with plan member data, these and other assumptions are used to estimate future benefit eligibility, amount and duration of payments. The rate determined for each of the key assumptions is disclosed in note 15.

The discount rate is used to calculate the present value of the expected future benefit payments. The discount rate is based on high grade corporate bond yields at the measurement date.

The expected long-term rate of return on plan assets is determined by calculating the weighted average return of the plan's portfolio based on the expected return and the policy portfolio weighting for each respective asset class.

The rate of compensation increase reflects individual job progression, general price level increases, productivity, seniority, promotion and other factors.

The inflation rate assumption is based on an assessment of the Bank of Canada target inflation range and the inflation expectations implied by the Government of Canada nominal and real return long-term bond yields.

The Medical Services Plan trend rate is based on expected increases reflected in the provincial budget.

The extended healthcare costs trend rate is based on an analysis of plan experience, assumptions about the trend in total healthcare costs, and the proportion that will be covered by private plans.

With the exception of the discount rate, which is based on market conditions at the financial statement date, all other assumptions are management's best estimate.

4. Transition to International Financial Reporting Standards

These are the Corporation's first consolidated financial statements prepared in accordance with IFRS. The accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010, and the opening IFRS consolidated statement of financial position at January 1, 2010, the Corporation's date of transition.

The Canadian GAAP equity balance as at the January 1, 2010 transition date has been reconciled to IFRS as follows:

($ THOUSANDS)	Reference	Retained Earnings	Other Components of Equity	Total
Canadian GAAP balance, January 1, 2010		$ 3,214,655	$ 402,160	$ 3,616,815
Accrued pension and post-retirement benefits	*a & g*	(188,577)	–	(188,577)
Unrealized foreign exchange loss	*h (i)*	(46,968)	46,968	–
Changes in fair value through profit or loss assets	*f*	(158)	158	–
Effect of transition upon adoption to IFRS		(235,703)	47,126	(188,577)
IFRS balance, January 1, 2010		$ 2,978,952	$ 449,286	$ 3,428,238

The Canadian GAAP net income and comprehensive income for the twelve months ended December 31, 2010 have been reconciled to IFRS as follows:

($ THOUSANDS)	Reference	Net Income	Other Comprehensive Income	Total Comprehensive Income
Canadian GAAP 2010 total comprehensive income		$ 361,493	$ 90,705	$ 452,198
Pension and post-retirement benefits expense adjustments	*g*	(13,560)	–	(13,560)
Unrealized foreign exchange gain	*h (i)*	7,290	(7,290)	–
Reversal of foreign exchange impairment on monetary available for sale financial assets	*h (i)*	16,871	(16,871)	–
Changes in fair value through profit or loss assets	*f*	107	(107)	–
Pension and post-retirement benefits actuarial loss	*g*	–	(92,077)	(92,077)
Effect of transition during 2010 to IFRS		10,708	(116,345)	(105,637)
IFRS 2010 total comprehensive income		$ 372,201	$ (25,640)	$ 346,561

The Canadian GAAP equity balance as at December 31, 2010 has been reconciled to IFRS as follows:

($ THOUSANDS)	Retained Earnings	Other Components of Equity	Total
Canadian GAAP balance, December 31, 2010	$ 3,000,436	$ 492,865	$ 3,493,301
Effect of transition			
Upon adoption to IFRS	(235,703)	47,126	(188,577)
During 2010			
Net income	10,708	–	10,708
Other comprehensive income	(92,077)	(24,268)	(116,345)
IFRS balance, December 31, 2010	$ 2,683,364	$ 515,723	$ 3,199,087

The guidance for the first time adoption of IFRS is set out in IFRS 1 *First Time Adoption of International Financial Reporting Standards* (IFRS 1). IFRS 1 permits certain mandatory exceptions and optional exemptions for first time adopters of IFRS from retrospective application. The Corporation is in compliance with all the mandatory exceptions and has elected to take the following optional exemptions:

a) To recognize for all employee benefit plans, the net cumulative unamortized actuarial loss of $99.8 million and the unamortized transitional asset of $38.9 million at the date of transition, directly into retained earnings;

b) To provide three years of disclosure for the present value of the defined benefit obligation, the fair value of the plan assets, the surplus (deficit) in the plan and the experience adjustments upon adoption of IFRS, building to the required five years;

c) To provide at least five years of claims development data upon adoption of IFRS, building to the required ten years;

d) To determine whether an arrangement existing at the date of transition to IFRS contains or is a lease on the basis of facts and circumstances existing at that date;

e) To measure a subsidiary's assets and liabilities at the same carrying amounts shown in the subsidiary's financial statements, adjusted for consolidation; and

f) To redesignate cash and cash equivalents as FVTPL with fair value changes flowing through investment income.

While adoption of IFRS has not changed the Corporation's actual cash flows, it has resulted in changes to the Corporation's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Corporation's Canadian GAAP equity at January 1, 2010 and December 31, 2010, and total comprehensive income for the year ended December 31, 2010, have been reconciled to IFRS with the resulting differences explained below.

g) Employee Benefits

The combination of only recognizing 50% of the COPE Plan's financial impact, and the Corporation's determination that it cannot realize any future economic benefit with respect to the COPE Plan surplus has resulted in the total surplus of $127.7 million being written off as at January 1, 2010. This resulted in the elimination of the accrued pension benefit asset at January 1, 2010.

Under Canadian GAAP, the Corporation recognized 100% of the COPE Plan's financial impact, and the Corporation's portion of the current service cost used in calculating the pension expense was equal to the total current service cost reduced by employee contributions. Upon adoption of IFRS, the Corporation has reflected the COPE Plan's employer/employee risk and cost sharing provisions by recognizing 50% of its financial impact. As a result, the Corporation's portion of the current service cost is equal to 50% of the total current service cost, which is not reduced by employee contributions. Under IFRS, all other components of the COPE Plan's pension expense, including the interest cost and expected return on assets are also adjusted by 50%. The resulting 2010 IFRS pension expense is larger than the amount disclosed under Canadian GAAP (note 15).

Under Canadian GAAP, the Corporation utilized the corridor approach to recognize actuarial gains and losses in income. The corridor method for the treatment of actuarial gains or losses requires that net actuarial gains or losses in excess of the greater of 10% of either the fair value of the plan assets or the accrued benefit obligation are amortized. Under IFRS, the Corporation has elected to recognize all actuarial gains and losses in OCI. For the year ended December 31, 2010, an actuarial loss of $92.1 million was recognized in OCI.

h) Investments

i. Under Canadian GAAP, the Corporation recognized all unrealized foreign exchange gains and losses on AFS financial assets in OCI. Upon adoption of IFRS, unrealized foreign exchange losses on monetary AFS financial assets of $47.0 million at January 1, 2010 were recognized directly in retained earnings and unrealized foreign exchange gains experienced during 2010 of $7.3 million were recognized in investment income.

Under Canadian GAAP, impairment was based on whether there was an other than temporary decline in value, which is no longer an IFRS requirement. There were no significant differences as a result of this change. Under Canadian GAAP, the Corporation recognized an impairment on its US bond portfolio primarily due to unrealized foreign exchange losses and recorded these losses in investment income. Under IFRS, this impairment of $16.9 million was reversed as these unrealized foreign exchange losses on monetary AFS financial assets were recognized in retained earnings at January 1, 2010 upon transition as described above.

ii. Under Canadian GAAP, the Corporation consolidated a pooled equity fund as a variable interest entity (VIE). While IFRS does not include the concept of a VIE, it does require the Corporation to consolidate an entity where there is control, significant influence or where an entity is considered a Special Purpose Entity (SPE). The Corporation has determined that consolidation for this pooled equity fund is not required under IFRS as there is no control, no significant influence nor is it an SPE. When determining if consolidation is required, IFRS focuses on the control of the entity as opposed to Canadian GAAP which focuses on access to the majority of the rewards of ownership. As a result, the Corporation has accounted for the pooled equity fund as an AFS financial asset. The related incremental assets and liabilities previously consolidated under Canadian GAAP have been reduced.

i) Presentation

The comparative financial statements as at December 31, 2010 and January 1, 2010 have been reclassified from amounts previously reported under Canadian GAAP to conform with IFRS as follows:

i. Certain line items on the consolidated statement of financial position have been reclassified based on a liquidity presentation. Certain income, expense, and cash flow items that were previously netted are now reported separately on a gross basis in the consolidated statements of comprehensive income and cash flows.

ii. The Corporation now classifies intangible assets separately from property and equipment.

5. New Accounting Pronouncements

a) Standards and interpretations effective in 2011

The Corporation has adopted the standards and interpretations that are relevant to the operations of the Corporation and effective on December 31, 2011.

b) Standards and interpretations issued but not yet effective and not early adopted

The standards and interpretations issued that are relevant to the operations of the Corporation, but not yet effective include:

- IAS 1 (Amendment) *Presentation of financial statements.* Effective for annual periods beginning on or after July 1, 2012, the amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to net income in the future. Items that will not be recycled are presented separately from items that may be recycled in the future. The statement of comprehensive income is renamed to 'statement of net income and other comprehensive income', however, other titles are permitted.
- IFRS 7 (Amendment) *Financial instruments: Disclosures.* Effective January 1, 2013, the amended disclosures focus on quantitative information about recognized financial instruments that are offset in the statement of financial position,

as well as those recognized financial instruments that are subject to master netting, where the legal right of offset is only enforceable on the occurrence of some future event, or similar arrangements irrespective of whether they offset. An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a master netting arrangement with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract.

In addition, effective January 1, 2015, the amendment requires additional transitional disclosures when prior periods are not restated depending upon the earlier application of IFRS 9 prior to January 1, 2015. These disclosures focus on the impact that the adoption of IFRS 9 has on the classification of financial assets and liabilities.

- IFRS 9 *Financial instruments*. Effective January 1, 2013, all changes in fair value of financial assets that are measured at fair value are recognised in net income, except for equity investments for which the OCI option has been elected, or where financial assets are part of a hedge relationship. The standard only permits the recognition of fair value gains and losses in OCI for equity investments that are not held for trading. For financial liabilities designated under the fair value option, other than loan commitments and financial guarantee contracts, the amount of change in fair value related to changes in the credit risk of these liabilities is typically presented in OCI. The remaining amount of the total gain or loss is included in net income. The IASB has delayed the mandatory adoption until January 1, 2015.
- IFRS 10 *Consolidated financial statements*. Effective January 1, 2013, IFRS 10 replaces the consolidation guidance in IAS 27, 'Consolidated and Separate Financial Statements' and SIC-12, 'Consolidation — Special Purpose Entities' by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Under IFRS 10, control is based on whether an investor has power over the investee, exposures or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.
- IFRS 12 *Disclosure of interests in other entities*. Effective January 1, 2013, IFRS 12 sets disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.
- IFRS 13 *Fair value measurement*. Effective January 1, 2013, IFRS 13 defines fair value and sets out, in a single IFRS, a framework for measuring fair value along with the disclosures necessary to understand what supports the fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- IAS 19 (Amendment) *Employee benefits*. Effective January 1, 2013, the amended standard requires 'actuarial gains and losses' to be renamed 'remeasurements' and to be recognized immediately into OCI. Actuarial gains and losses will no longer be deferred using the corridor approach and remeasurements recognized in OCI will not be recycled through profit or loss in subsequent periods. Past-service costs will be recognized in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity significantly reduces the number of employees. Curtailment gains and losses are accounted for as past-service costs. Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. Other changes include additional disclosures about defined benefit plans, modifying accounting for termination benefits and clarifying various miscellaneous issues.
- IAS 32 (Amendment) *Financial instruments: Presentation*. Effective January 1, 2014, the amendment does not change the current offsetting model in the standard. The current model requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously. The amendments clarify that the right of set-off must be available today and is not contingent on a future event. A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. Further, gross settlement mechanisms (such as a clearing house) with features that both eliminate credit and liquidity risk and process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore meet the IAS 32 criterion in these instances.

The Corporation has not early adopted these standards. The impact is not yet determinable.

6. Investments

a) Financial investments

($ THOUSANDS)	Classification	December 31, 2011 Carrying Value	December 31, 2010 Carrying Value	January 1, 2010 Carrying Value
Financial investments				
Money market securities	AFS	$ 409,624	$ 113,524	$ 166,479
Bonds				
Canadian				
Federal	AFS	3,769,474	2,910,303	3,011,822
Provincial	AFS	905,601	891,122	918,359
Municipal	AFS	–	–	9,905
Corporate	AFS	2,407,158	2,935,373	2,653,886
Total Canadian bonds		7,082,233	6,736,798	6,593,972
United States				
Federal	AFS	–	298,552	359,244
Corporate	AFS	–	273,671	183,953
Total United States bonds		–	572,223	543,197
Total bonds		7,082,233	7,309,021	7,137,169
Mortgages	Loans	1,028,026	993,489	904,517
Equities				
Canadian	AFS	1,347,378	1,544,133	1,487,514
United States	AFS	575,260	580,901	588,124
Europe, Australia, Far East	AFS	526,845	589,625	550,651
Total equities		2,449,483	2,714,659	2,626,289
Total financial investments		$ 10,969,366	$ 11,130,693	$ 10,834,454
Non-current portion		$ 9,651,435	$ 10,073,026	$ 9,968,432

Money market securities, bonds and equities are carried at their fair value. Mortgages are measured at amortized cost and have an estimated fair value of $1,067.6 million (December 31, 2010 – $1,024.4 million; January 1, 2010 – $921.5 million).

b) Investment properties

The movement in the carrying value of investment properties is as follows:

($ THOUSANDS)	2011	2010
Cost		
Balance, beginning of year	$ 457,926	$ 335,250
Additions	69,096	127,261
Disposals	(800)	–
Impairment losses recognized	–	(4,585)
Balance, end of year	526,222	457,926
Accumulated depreciation		
Balance, beginning of year	31,668	21,896
Disposals	(475)	–
Depreciation	12,001	9,772
Balance, end of year	43,194	31,668
Carrying value, end of year	$ 483,028	$ 426,258

The fair value of investment properties is $606.7 million (December 31, 2010 – $522.5 million; January 1, 2010 – $384.2 million).

At December 31, 2011, no impairment (December 31, 2010 – $4.6 million; January 1, 2010 – nil) was recognized in respect of any of the Corporation's investment properties.

7. Financial Assets and Liabilities

a) Fair value hierarchy

The following table presents the fair value hierarchy for financial assets and liabilities measured at fair value in the consolidated statement of financial position. During 2010 and 2011, there were no transfers between Level 1 and Level 2.

($ THOUSANDS)	Fair Value Measurements at Reporting Date			
December 31, 2011	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 23,844	$ –	$ 23,844	$ –
Money market securities	409,624	–	409,624	–
Bonds	7,082,233	–	7,080,580	1,653
Equities	2,449,483	1,711,967	736,709	807
Total financial assets	$ 9,965,184	$ 1,711,967	$ 8,250,757	$ 2,460
December 31, 2010				
Cash	$ 20,977	$ –	$ 20,977	$ –
Money market securities	113,524	–	113,524	–
Bonds	7,309,021	–	7,307,368	1,653
Equities	2,714,659	2,713,839	–	820
Total financial assets	$ 10,158,181	$ 2,713,839	$ 7,441,869	$ 2,473
January 1, 2010				
Cash	$ 23,102	$ –	$ 23,102	$ –
Money market securities	166,479	–	166,479	–
Bonds	7,137,169	–	7,127,774	9,395
Equities	2,626,289	2,625,469	–	820
Total financial assets	$ 9,953,039	$ 2,625,469	$ 7,317,355	$ 10,215

The following table shows the movement of financial assets where fair value has been determined based upon significant unobservable inputs (Level 3):

($ THOUSANDS)	Fair Value Measurements using Level 3 Inputs	
	Bonds	Equities
Balance, January 1, 2010	$ 9,395	$ 820
Total losses in net income	(3,175)	–
Settlements for investments sold	(4,567)	–
Balance, December 31, 2010	$ 1,653	$ 820
Total gains (losses)		
– in net income	–	936
– in other comprehensive income	–	(936)
Settlements for investments sold	–	(13)
Balance, December 31, 2011	$ 1,653	$ 807

b) Other financial assets

Other financial assets include accrued interest, premiums and other receivables, and reinsurance assets. The fair values of other financial assets approximate their carrying values, due to their short-term nature. The non-current portion of these other financial assets is $15.1 million (December 31, 2010 – $11.3 million; January 1, 2010 – $6.4 million).

c) Financial liabilities

Financial liabilities include cheques outstanding, accounts payable, and bond repurchase agreements and investment-related liabilities. All financial liabilities are recorded at cost or amortized cost. The carrying value of bond repurchase agreements is $894.9 million (December 31, 2010 – $879.6 million; January 1, 2010 – $861.8 million). Except for investment-related liabilities, the fair values of all other financial liabilities approximate their carrying values, due to their short-term nature. Investment-related liabilities have terms ranging from one to eleven years and their carrying values are a reasonable estimate of fair value.

8. Management of Insurance and Financial Risk

As a provider of automobile insurance products, effective risk management is fundamental in protecting earnings, cash flow, and ultimately the financial stability of the Corporation. The Corporation is exposed to various types of insurance and financial risks.

a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Corporation faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur when the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary each year from the level established using statistical techniques.

Injury claims include bodily injury, accident benefits, and death benefits, which account for approximately 60% of total claims costs. Injury claims have amounts for pain and suffering, future care, past and future wage loss, and external claims handling expenses. The amount of injury claims can exhibit considerable uncertainty due to changes in internal claims operational changes, the judicial environment, and settlement awards. The timing of payments can also exhibit uncertainty because of delayed reporting and extended settlement times. Material damage claims include property damage, collision, and comprehensive (all perils), which account for approximately 40% of total claims costs.

The estimated cost of claims also includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Corporation takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will be different from the original liability established. The liability for these contracts includes a provision for IBNR claims, a provision for reported claims not yet paid, and a provision for unexpired risks at the reporting date. The amount of casualty claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

Frequency and severity of claims

There are a number of factors that influence the frequency and severity of claims; some of which the Corporation has some control over. A number of strategies are used to control cost pressures created by these factors, including claims operational changes, road safety programs, programs to influence driver behaviour such as impaired driving and distracted driving programs, public awareness campaigns, and auto crime reduction initiatives.

Factors outside of the Corporation's control include weather, demographics, settlement awards, legal fees and economic changes, including vehicle parts/repair inflation and medical expense inflation that influence the cost of claims.

Sources of uncertainty in the estimation of future claims

There is inherent uncertainty regarding the assumptions to estimate amount and timing of future claims payments and the unpaid claims liability. The Corporation is liable for all insured events that occurred during the term of the

contract, even if the loss is reported after the end of the contract term. In addition, injury claims may result in a long period of time before settlement.

The amount and timing of future claims payments and the existence of IBNR claims are sources of inherent uncertainty. Future cash flows may be impacted by factors such as internal claims operational changes, the economic environment, and changes within the judicial environment. Historical changes to these factors can diminish the consistency in observed historical claims development and therefore, increase the uncertainty in the estimation of future claim payments.

The Corporation's unpaid claims liability can be affected by claims inflation, actuarial methods and assumptions, and the discount rate. Claims inflation due to increases in frequency and severity are discussed above. The adequacy and accuracy of this liability is reviewed and adjusted periodically throughout the year based on revised estimates which includes a PFAD. The unpaid claims liability is presented on a discounted basis. A 1% increase in the discount rate will have a favourable impact on the claims liability of $150.2 million (December 31, 2010 – $141.6 million) and a 1% decrease in the discount rate will have an unfavourable impact on the claims liability of $158.8 million (December 31, 2010 – $149.5 million).

Loss and count development factors, actuarial assumptions and methods are discussed above. The changes in selected loss and count development factors and actuarial assumptions in 2011 had an estimated 0.9% unfavourable impact (2010 – 2.6% unfavourable) on the 2011 total unpaid claims liability.

To manage the uncertainty of assumptions and to analyze ultimate claims costs, the Corporation's actuaries employ standard actuarial methods. The Corporation's ultimate claims estimate is determined in accordance with accepted actuarial practice in Canada and is based on reasonable assumptions and appropriate methods that are consistently applied (note 3a).

Assumptions inherent in the actuarial methods are reviewed to ensure that they still hold true and in the cases where they do not, adjustments are made or the method is simply not used.

Concentration of insurance risk

The Corporation has a diverse customer base as the sole provider of Basic insurance to all drivers in British Columbia. The Corporation operates in one jurisdiction and provides automobile insurance only, so there is a concentration of insurance risk with respect to geography, jurisdiction, demographics and product type.

The impact of the concentration of insurance risk is quantified through annual scenario capital adequacy testing. This testing allows the Corporation to assess and manage these risks effectively. The concentration of insurance risk is also managed through Road Safety programs, a catastrophe reinsurance treaty, and a casualty reinsurance treaty.

Premium pricing risk

The Corporation is also exposed to premium pricing risk for its Basic insurance products. Market conditions or claims experience may necessitate changes to the insurance premiums charged to customers. The Corporation is subject to regulations over its Basic insurance and may apply to BCUC for approval to change its Basic insurance rates (notes 19 and 21).

b) Financial risk

Price risk

General economic conditions, political conditions and other factors affect the equity market, thereby also affecting the fair value of the securities and the pooled funds held by the Corporation. Fluctuations in the value of these securities impact the recognition of unrealized gains and losses on equity securities and on the units of funds held. At December 31, 2011, the impact of a 10% change in prices, with all other variables held constant would result in an estimated corresponding change to OCI of approximately $244.9 million (December 31, 2010 – $272.0 million; January 1, 2010 – $263.0 million).

The Corporation manages a widely diversified portfolio, diversified geographically, by sector and by company and has policies in place to limit and monitor total equity exposure and individual issuer exposure.

Interest rate risk

When interest rates increase or decrease, the market value of fixed income securities will decrease or increase respectively with a larger market value impact on instruments with a long duration compared to instruments with a short duration. Fluctuations in interest rates have a direct impact on the market valuation of the Corporation's fixed

income portfolio. A natural hedge exists between the Corporation's fixed income portfolio and the unpaid claims liability as the Corporation's investment yields are used to derive the discount rate for the unpaid claims liability.

The Corporation has policies in place to limit and monitor its exposure to interest rate risk to allow for duration matching of claim liabilities to bond assets.

The carrying values reported in the consolidated statement of financial position for cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values and are not significantly impacted by fluctuations in interest rates.

In 2011 and 2010, the Corporation did not use derivative financial instruments to hedge interest rate risk on its investment portfolio.

	December 31, 2011		December 31, 2010		January 1, 2010	
	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)	Average Yield (%)	Duration (Years)
Bonds						
Canadian						
Federal	1.8	2.3	2.3	2.5	2.7	2.6
Provincial	2.9	2.3	2.9	3.1	3.6	3.1
Municipal	–	–	–	–	3.7	3.3
Corporate	3.6	2.1	4.0	2.1	4.4	2.3
United States						
Federal	–	–	1.8	2.7	1.9	2.5
Corporate	–	–	2.9	2.4	3.8	2.7
Total bonds	2.5	2.2	3.0	2.4	3.4	2.6
Mortgages	5.3	2.5	5.5	2.8	5.6	2.5
Total bonds and mortgages	2.9	2.3	3.3	2.4	3.7	2.5

As at December 31, 2011, a 100 basis point change in interest rates would result in a change of approximately $183.9 million (December 31, 2010 – $202.0 million; January 1, 2010 – $204.0 million) in the fair value of the Corporation's fixed income portfolio and a corresponding impact of approximately $183.9 million (December 31, 2010 – $202.0 million; January 1, 2010 – $204.0 million) to other components of equity (OCE). Interest rate changes would also result in an inverse change to the provision for unpaid claims and the corresponding claims costs (note 8a).

Credit risk

Credit risk is the potential for financial loss to the Corporation if the counterparty in a transaction fails to meet its obligations. Financial instruments that potentially give rise to significant concentrations of credit risk include fixed income securities, accounts receivable, reinsurance receivables and recoverables, and structured settlements (note 20).

Fixed income securities

The Corporation mitigates its exposure to credit risk by acquiring fixed income securities issued by high-quality institutions with investment grade credit ratings. Credit risk in mortgages is mitigated as it is secured by the underlying property and it is also addressed through a stringent underwriting process that incorporates an internal credit scoring mechanism, and all mortgages are subject to an independent review annually.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, where available, or to historical information about counterparty default rates.

The Corporation considers Canadian and US government bonds to be risk-free. Therefore the maximum credit risk exposure for fixed income securities pertain to all other bond investments and to mortgage investments, totalling their carrying amount of $4.3 billion (December 31, 2010 – $5.1 billion; January 1, 2010 – $4.7 billion). There is minimal credit risk exposure to cash.

The following table highlights money market securities and bonds by credit quality according to Standard and Poor's at December 31, 2011:

($ THOUSANDS)	December 31, 2011	December 31, 2010	January 1, 2010
Money market securities			
AAA	$ 409,624	$ 113,524	$ 156,496
R1 - MID	–	–	9,983
	$ 409,624	$ 113,524	$ 166,479
Bonds			
AAA	$ 4,387,221	$ 3,792,861	$ 3,878,051
AA	920,398	1,247,276	1,511,123
A	1,275,868	1,723,513	1,415,085
BBB	498,746	545,371	323,580
Not rated	–	–	9,330
	$ 7,082,233	$ 7,309,021	$ 7,137,169

Premiums and other receivables

The Corporation has a diverse customer base as it provides Basic insurance to all drivers in British Columbia. While there is no significant concentration of credit risk, the Corporation's premiums and other receivables are comprised of customers with varying financial conditions. Subrogation and other recoveries from customers are fully provided for due to the uncertainty of collection.

The credit risk for premiums receivables is mitigated as a customer's policy may be cancelled if the customer is in default of a payment. The maximum credit risk for all other receivables equals their carrying amount. As at December 31, 2011, the Corporation considered $71.0 million (December 31, 2010 – $69.7 million; January 1, 2010 – $69.7 million) of its premiums and other receivables to be uncollectible and has provided for them.

The following table outlines the aging of premiums and other receivables as at December 31, 2011:

($ THOUSANDS)

	Current	Past Due 1 - 30 days	Past Due 31 - 60 days	Over 60 days	Total
December 31, 2011					
Premiums and other receivables	$ 1,070,708	$ 9,275	$ 2,226	$ 81,419	$ 1,163,628
Provision	(1,755)	(1,333)	(1,361)	(66,575)	(71,024)
Total premiums and other receivables	$ 1,068,953	$ 7,942	$ 865	$ 14,844	$ 1,092,604
December 31, 2010					
Premiums and other receivables	$ 997,290	$ 8,743	$ 877	$ 80,372	$ 1,087,282
Provision	(1,768)	(1,235)	(787)	(65,956)	(69,746)
Total premiums and other receivables	$ 995,522	$ 7,508	$ 90	$ 14,416	$ 1,017,536
January 1, 2010					
Premiums and other receivables	$ 1,017,299	$ 5,071	$ 1,606	$ 70,869	$ 1,094,845
Provision	(1,299)	(1,317)	(1,309)	(65,780)	(69,705)
Total premiums and other receivables	$ 1,016,000	$ 3,754	$ 297	$ 5,089	$ 1,025,140

The Corporation's provision for premiums and other receivables is broken down as follows:

($ THOUSANDS)	2011	2010
Balance, beginning of year	$ (69,746)	$ (69,705)
Charges for the year	(19,765)	(19,470)
Recoveries	6,666	6,823
Amounts written off	11,821	12,606
Balance, end of year	$ (71,024)	$ (69,746)

Reinsurance assets

Failure of reinsurers to honour their obligations could result in losses to the Corporation. The maximum credit risk exposure equals the carrying amount of $0.7 million (December 31, 2010 – $5.8 million; January 1, 2010 – $10.0 million). The Corporation has policies which require reinsurers to have a minimum credit rating of A-. No single reinsurer represents more than 15% of the total reinsurers' share of the provision for unpaid claims and adjusting expenses in a contract year. Both these items mitigate the Corporation's exposure to credit risk. No amount owing from the reinsurers has been considered impaired at December 31, 2011.

($ THOUSANDS)	December 31, 2011	December 31, 2010	January 1, 2010
Reinsurance recoverable (note 12)	$ 616	$ 5,807	$ 7,807
Reinsurance receivable	75	32	2,186
Reinsurance assets	$ 691	$ 5,839	$ 9,993

Liquidity risk

A significant business risk of the insurance industry is the ability to match the cash inflows from premiums and the investment portfolio with the cash requirements of the policy liabilities and operating expenses. The timing of most policy liability payments is not known, and may take considerable time to determine precisely, and may be paid in partial payments.

The Corporation has taken the overall historical liability settlement pattern as a basis to define diversification and duration characteristics of the investment portfolio.

To meet the cash requirements for claims and operating expenses, the Corporation has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration.

Liquidity risk is further controlled by holding Government bonds and other highly liquid investments. Bond repurchase agreements are accounted for as financial liabilities and are considered to be short-term in nature.

The following table summarizes the maturity profile as at December 31, 2011 of the Corporation's financial instruments by contractual maturity or expected cash flow dates:

($ THOUSANDS)

	Within One Year	One Year to Five Years	After Five Years	Total
December 31, 2011				
Bonds				
Canadian				
Federal	$ 212,801	$ 3,056,650	$ 500,023	$ 3,769,474
Provincial	35,594	870,007	–	905,601
Corporate	380,963	2,026,195	–	2,407,158
Total bonds	629,358	5,952,852	500,023	7,082,233
Mortgages	278,949	602,305	146,772	1,028,026
	$ 908,307	$ 6,555,157	$ 646,795	$ 8,110,259
December 31, 2010				
Bonds				
Canadian				
Federal	$ –	$ 2,810,280	$ 100,023	$ 2,910,303
Provincial	–	845,318	45,804	891,122
Corporate	771,009	2,104,796	59,568	2,935,373
United States				
Federal	–	298,552	–	298,552
Corporate	15,004	255,869	2,798	273,671
Total bonds	786,013	6,314,815	208,193	7,309,021
Mortgages	158,130	713,579	121,780	993,489
	$ 944,143	$ 7,028,394	$ 329,973	$ 8,302,510
January 1, 2010				
Bonds				
Canadian				
Federal	$ –	$ 3,011,822	$ –	$ 3,011,822
Provincial	–	912,586	5,773	918,359
Municipal	–	9,905	–	9,905
Corporate	568,209	2,059,977	25,700	2,653,886
United States				
Federal	–	359,244	–	359,244
Corporate	14,109	165,402	4,442	183,953
Total bonds	582,318	6,518,936	35,915	7,137,169
Mortgages	117,225	672,695	114,597	904,517
	$ 699,543	$ 7,191,631	$ 150,512	$ 8,041,686

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation is exposed to foreign exchange risk on its international, and US equity portfolios. The Corporation no longer has a foreign exchange risk exposure on its fixed income portfolio as the Corporation disposed of its US bond portfolio during the year.

A 10% change in the US exchange rate at December 31, 2011 would change the fair value of these investments and a corresponding change to OCI of approximately $59.6 million (December 31, 2010 – $115.0 million; January 1, 2010 – $113.0 million). As all other foreign currency investments individually comprise five per cent or less of the total investment portfolio in both 2011 and 2010, the impact of a change in the exchange rate of these currencies is not expected to have a material impact on the portfolio.

The Corporation has policies in place to limit and monitor its exposure to currency risks.

9. Investment Income

($ THOUSANDS)	Classification	2011	2010
Interest			
Money market	AFS	$ 2,675	$ 1,032
Bonds	AFS	200,936	215,172
Mortgages	Loans	55,182	53,217
		258,793	269,421
Gains on investments			
Equities	AFS	136,238	143,657
Bonds	AFS	11,817	55,848
Investment properties	Other	4,341	–
Unrealized fair value changes[1]	AFS	39,388	7,397
		191,784	206,902
Dividends and other income (expenses)			
Equities	AFS	72,565	66,661
Income from investment properties	Other	23,146	20,829
Investment management fees	Other	(7,119)	(8,582)
Impairment loss	AFS/Other	(96,107)	(19,891)
Other	Other	(1,582)	(5,021)
		(9,097)	53,996
Total investment income		$ 441,480	$ 530,319

[1] *includes changes in unrealized foreign exchange gains and losses on monetary AFS assets*

($ THOUSANDS)	2011	2010
Amounts recognized in investment income for investment properties		
Rental income	$ 61,685	$ 51,536
Direct operating expenses that generated rental income	(36,810)	(30,597)
Direct operating expenses that did not generate rental income	(1,729)	(110)
Income from investment properties	23,146	20,829
Gain on sale of investment properties	4,341	–
Impairment on investment properties	–	(4,585)
Total amount recognized in investment income	$ 27,487	$ 16,244

The Corporation participates in a securities lending program managed by a federally regulated financial institution whereby it lends securities it owns to other financial institutions. The Corporation receives securities of equal or superior credit quality as collateral for securities loaned and records commission on transactions as earned. At December 31, 2011, there were no securities loaned or received as collateral. At December 31, 2010, there were $295.4 million securities loaned and $310.0 million received as collateral.

10. Property and Equipment

($ THOUSANDS)	Land	Buildings	Furniture & Equipment	Leasehold Improvements	Total
2011					
Cost					
Balance, beginning of year	$ 33,526	$ 158,251	$ 118,964	$ 12,556	$ 323,297
Additions	36	2,995	42,790	3,013	48,834
Disposals	(50)	(60)	(848)	(230)	(1,188)
Balance, end of year	33,512	161,186	160,906	15,339	370,943
Accumulated depreciation					
Balance, beginning of year	–	123,551	89,521	9,300	222,372
Disposals	–	(5)	(477)	(143)	(625)
Depreciation charge for the year	–	3,214	11,036	686	14,936
Balance, end of year	–	126,760	100,080	9,843	236,683
Net book value, end of year	$ 33,512	$ 34,426	$ 60,826	$ 5,496	$ 134,260
2010					
Cost					
Balance, beginning of year	$ 32,943	$ 151,538	$ 102,496	$ 10,567	$ 297,544
Additions	583	6,713	16,729	1,989	26,014
Disposals	–	–	(261)	–	(261)
Balance, end of year	33,526	158,251	118,964	12,556	323,297
Accumulated depreciation					
Balance, beginning of year	–	120,350	81,942	8,789	211,081
Disposals	–	–	(253)	–	(253)
Depreciation charge for the year	–	3,201	7,832	511	11,544
Balance, end of year	–	123,551	89,521	9,300	222,372
Net book value, end of year	$ 33,526	$ 34,700	$ 29,443	$ 3,256	$ 100,925

The balances in property and equipment include $24.7 million (December 31, 2010 – $13.0 million; January 1, 2010 – $6.5 million) in assets under development.

The additions in property and equipment include $6.9 million (December 31, 2010 – $2.1 million; January 1, 2010 – nil) capitalized for the Transformation Program (note 19).

11. Intangible Assets

The Corporation's intangible assets are broken down as follows:

($ THOUSANDS)	2011	2010
Cost		
Balance, beginning of year	$ 59,001	$ 40,656
Additions	37,033	18,345
Disposals	(135)	–
Balance, end of year	95,899	59,001
Accumulated amortization		
Balance, beginning of year	37,680	35,011
Disposals	(82)	–
Amortization charge for the year	3,225	2,669
Balance, end of year	40,823	37,680
Net book value, end of year	$ 55,076	$ 21,321

The Corporation's intangible assets consist of externally purchased software and any directly attributable costs required to bring the software to a condition where it is available for use.

The balances in intangible assets include $37.5 million (December 31, 2010 – $16.6 million; January 1, 2010 – $2.7 million) in assets under development.

The additions in intangible assets include $28.2 million (December 31, 2010 – $11.1 million; January 1, 2010 – nil) capitalized for the Transformation Program (note 19).

12. Provision for Unpaid Claims

The movements in the provision for unpaid claims and reinsurance recoverables and their impact on claims incurred for the year are as follows:

($ THOUSANDS)	2011			2010		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Notified claims	$ 5,916,239	$ (5,807)	$ 5,910,432	$ 5,706,421	$ (7,807)	$ 5,698,614
Incurred but not reported	266,768	–	266,768	257,921	–	257,921
Balance, beginning of year	6,183,007	(5,807)	6,177,200	5,964,342	(7,807)	5,956,535
Change in liabilities (assets):						
Provision for claims occurring in current year	2,880,130	–	2,880,130	2,754,077	–	2,754,077
Change in estimates for losses occurring in prior years:						
Prior years' claims adjustments	(71,934)	5,158	(66,776)	(65,555)	2,137	(63,418)
Prior years' changes in discounting provision	52,351	33	52,384	61,516	(137)	61,379
	(19,583)	5,191	(14,392)	(4,039)	2,000	(2,039)
Net claims incurred per consolidated statement of comprehensive income	2,860,547	5,191	2,865,738	2,750,038	2,000	2,752,038
Cash (paid) recovered for claims settled in the year for:						
Claims incurred in current year	(1,002,832)	–	(1,002,832)	(1,006,394)	–	(1,006,394)
Recoveries received on current year claims	73,378	–	73,378	63,341	–	63,341
	(929,454)	–	(929,454)	(943,053)	–	(943,053)
Claims incurred in prior years	(1,678,799)	–	(1,678,799)	(1,651,349)	–	(1,651,349)
Recoveries received on prior years' claims	57,418	–	57,418	63,029	–	63,029
	(1,621,381)	–	(1,621,381)	(1,588,320)	–	(1,588,320)
Total net payments	(2,550,835)	–	(2,550,835)	(2,531,373)	–	(2,531,373)
Balance, end of year	$ 6,492,719	$ (616)	$ 6,492,103	$ 6,183,007	$ (5,807)	$ 6,177,200
Notified claims	$ 6,215,296	$ (616)	$ 6,214,680	$ 5,916,239	$ (5,807)	$ 5,910,432
Incurred but not reported	277,423	–	277,423	266,768	–	266,768
Balance, end of year	$ 6,492,719	$ (616)	$ 6,492,103	$ 6,183,007	$ (5,807)	$ 6,177,200

The Corporation discounts its provision for unpaid claims at an investment rate of return of 3.97% (December 31, 2010 – 4.46%; January 1, 2010 – 4.64%). The Corporation determines the discount rate based upon the expected return on its investment portfolio and uses assumptions for interest rates relating to reinvestment of maturing investments. As a result of the decrease in the investment rate of return from 4.46% at December 31, 2010 to 3.97% at December 31, 2011, there was an unfavourable adjustment to both current and prior years' provision of $74.6 million (December 31, 2010 – $26.0 million; January 1, 2010 – $22.4 million).

The following table shows the effect of discounting and PFADs on the provision for unpaid claims:

($ THOUSANDS)

	Undiscounted	Effect of Present Value	PFADs	Discounted
December 31, 2011				
Provision for unpaid claims, net	$ 6,380,300	$ (594,464)	$ 706,267	$ 6,492,103
Reinsurance recoverable	600	(56)	72	616
Provision for unpaid claims, gross	$ 6,380,900	$ (594,520)	$ 706,339	$ 6,492,719
December 31, 2010				
Provision for unpaid claims, net	$ 6,118,109	$ (631,500)	$ 690,591	$ 6,177,200
Reinsurance recoverable	5,758	(535)	584	5,807
Provision for unpaid claims, gross	$ 6,123,867	$ (632,035)	$ 691,175	$ 6,183,007
January 1, 2010				
Provision for unpaid claims, net	$ 5,945,600	$ (646,035)	$ 656,970	$ 5,956,535
Reinsurance recoverable	7,895	(969)	881	7,807
Provision for unpaid claims, gross	$ 5,953,495	$ (647,004)	$ 657,851	$ 5,964,342

Claims development table

A review of the historical development of the Corporation's insurance estimates provides a measure of the Corporation's ability to estimate the ultimate value of claims. The top half of the following table illustrates how the Corporation's estimate of total undiscounted claims costs for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

($ THOUSANDS) — Insurance Claims — Gross of Reinsurance

Accident Year	2004	2005	2006	2007	2008	2009	2010	2011	Total
Estimate of undiscounted ultimate claims costs:									
- At end of accident year	$ 2,204,694	$ 2,457,495	$ 2,578,431	$ 2,709,658	$ 2,676,918	$ 2,657,831	$ 2,743,503	$ 2,866,833	
- One year later	2,324,869	2,503,285	2,598,087	2,647,830	2,682,830	2,640,001	2,732,070		
- Two years later	2,351,339	2,465,521	2,517,961	2,651,655	2,692,277	2,626,760			
- Three years later	2,350,581	2,439,326	2,513,261	2,632,885	2,654,416				
- Four years later	2,318,077	2,419,725	2,508,005	2,633,582					
- Five years later	2,302,765	2,420,056	2,498,790						
- Six years later	2,303,033	2,430,329							
- Seven years later	2,298,727								
Current estimate of cumulative claims	2,298,727	2,430,329	2,498,790	2,633,582	2,654,416	2,626,760	2,732,070	2,866,833	20,741,507
Cumulative payments to date	(2,229,565)	(2,312,439)	(2,305,627)	(2,249,254)	(1,942,045)	(1,568,504)	(1,301,715)	(929,454)	(14,838,603)
Undiscounted unpaid liability	$ 69,162	$ 117,890	$ 193,163	$ 384,328	$ 712,371	$ 1,058,256	$ 1,430,355	$ 1,937,379	$ 5,902,904

Undiscounted unpaid liability in respect of 2003 and prior years	204,560
Undiscounted unallocated loss adjusmtent expense reserve	273,436
Total undiscounted unpaid claims liability	**$ 6,380,900**
Discounting adjustment	111,819
Total discounted unpaid claims liability (gross)	**$ 6,492,719**

The table on the previous page reflects the total discounted unpaid claims liability of $6,492.7 million before the amount for reinsurance recoverable. The total discounted unpaid claims liability after the amount for reinsurance recoverable of $0.6 million would be $6,492.1 million.

The expected maturity of the unpaid claims provision is analyzed below (undiscounted and gross of reinsurance):

($ THOUSANDS)

	Less than One Year	One to Two Years	Two to Three Years	Three to Four Years	Four to Five Years	Over Five Years	Total
December 31, 2011	$ 1,821,940	$ 1,439,037	$ 1,166,525	$ 789,597	$ 434,634	$ 729,167	$ 6,380,900
December 31, 2010	$ 1,711,977	$ 1,392,741	$ 1,155,832	$ 749,050	$ 412,559	$ 701,708	$ 6,123,867
January 1, 2010	$ 1,763,670	$ 1,327,486	$ 1,058,654	$ 700,170	$ 389,039	$ 714,476	$ 5,953,495

The non-current portion of the undiscounted unpaid claims provision is $4.3 billion (December 31, 2010 – $4.2 billion; January 1, 2010 – $4.1 billion).

The weighted average term to settlement of the discounted unpaid claims provision at December 31, 2011 is 2.4 years (December 31, 2010 – 2.4 years; January 1, 2010 – 2.3 years).

13. Unearned Premiums

The movements in unearned premiums recorded in the consolidated statement of financial position and the impact on premiums earned for the year are as follows:

($ THOUSANDS)	2011	2010
Balance, beginning of year	$ 1,743,001	$ 1,730,958
Premiums deferred on contracts written during the year	1,762,626	1,743,001
Premiums earned on contracts written in the previous year	(1,743,001)	(1,730,958)
Balance, end of year	$ 1,762,626	$ 1,743,001

All unearned premiums are earned within twelve months.

14. Reinsurance

The Corporation maintains casualty and catastrophe reinsurance to protect against significant losses.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2011 as follows:

a) For catastrophic occurrences, portions of losses up to $225.0 million in excess of $25.0 million; and

b) For individual casualty loss occurrences, portions of losses up to $45.0 million in excess of $5.0 million.

The Corporation entered into one year casualty and catastrophe reinsurance contracts beginning January 1, 2010 as follows:

a) For catastrophic occurrences, portions of losses up to $225.0 million in excess of $25.0 million; and

b) For individual casualty loss occurrences, portions of losses up to $45.0 million in excess of $5.0 million.

These reinsurance arrangements do not discharge the Corporation's obligation as primary insurer. The Corporation evaluates the financial condition of its reinsurers to minimize the exposure to significant loss from reinsurer insolvency.

15. Pension and Post-Retirement Benefits

The Corporation sponsors a defined benefit registered pension plan for its current and former management and confidential employees (the Management and Confidential Plan). In addition, it sponsors two supplemental pension plans for certain employees. The Corporation is the legal administrator of the Management and Confidential Plan and the two supplemental pension plans.

The Corporation also contributes to two other defined benefit pension plans for which it is not the sponsor. Current and former employees of the Corporation who are or were members of the Canadian Office & Professional Employees Union (COPE) Local 378 are members of the COPE 378 / ICBC Pension Plan (the COPE Plan). Trustees of the plan are appointed by each of the Corporation and COPE Local 378. The board of trustees of the COPE Plan is the legal plan administrator. The Corporation and plan members share responsibility for COPE Plan costs equally.

The Corporation has no fiduciary responsibility for, or role in the governance of, the COPE Plan or the BC Public Service Pension Plan.

The Corporation recognizes its 50% share of the COPE Plan costs in its financial statements as follows:

- 50% recognition of pension expense (current service cost, interest cost, expected return on plan assets and past service cost);
- 50% recognition of the defined benefit obligation and plan assets; and
- 50% recognition of actuarial gains and losses

The Corporation has derecognized its 50% share of the surplus assets held by the COPE Plan on its consolidated statement of financial position because it cannot realize a future economic benefit in respect of those assets.

An additional liability may be recognized in respect of future surplus created by minimum funding requirements. For this purpose, these minimum funding requirements include going concern current service costs and minimum payments toward going concern unfunded liabilities. Payments toward solvency funding are not included because the British Columbia *Pension Benefits Standards Act* permits the Corporation to secure these payments with a letter of credit in lieu of cash solvency payments. As a result the Corporation has determined that no additional liability is required to be recognized on the consolidated statement of financial position.

The Corporation pays Medical Services Plan, life insurance premiums, extended healthcare and dental costs as post-retirement benefits for its retirees. The benefits are not prefunded. Benefit entitlements differ for management and confidential and bargaining unit staff.

Total contributions for employee future benefits for 2011, consisting of cash contributed by the Corporation to all of the funded pension plans and in respect of its unfunded pension and post-retirement benefits were $57.1 million (2010 – $53.7 million). Estimated employer contributions for the year ending December 31, 2012 are $58.8 million. The estimate is based on the plans' most recent actuarial funding valuations. A December 31, 2011 actuarial funding valuation for the COPE Plan will be completed later in 2012. The results of this valuation could result in the Corporation's actual 2012 contributions being different from the above estimate.

The Corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes at December 31 of each year. The Management and Confidential Plan had an actuarial valuation as of December 31, 2009 which was extrapolated to December 31, 2011. The next expected valuation date is at December 31, 2012. The COPE Plan had an actuarial valuation as of December 31, 2008 which was extrapolated to December 31, 2011. The next expected valuation date is at December 31, 2011. The post-retirement benefits had an actuarial valuation as of December 31, 2009 which was extrapolated to December 31, 2011. The next expected valuation date is at December 31, 2012.

The net total liability for pension plans and post-retirement benefits at December 31, 2011 is $313.7 million (December 31, 2010 – $264.6 million; January 1, 2010 – $193.3 million), which is reflected in the consolidated statement of financial position. Information regarding the pension and post-retirement benefits plans is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2011	2010	2011	2010
Plan assets				
Fair value, beginning of year	$ 801,286	$ 693,593	$ –	$ –
Expected return on plan assets	63,275	54,465	–	–
Actuarial gain (loss) on assets	(11,622)	20,272	–	–
Employer contributions	43,654	41,784	4,080	3,285
Employees' contributions	15,131	13,704	–	–
Benefits paid	(22,529)	(24,331)	(4,080)	(3,285)
Transfers	–	3,025	–	–
Plan expenses	(1,392)	(1,226)	–	–
Fair value, end of year	$ 887,803	$ 801,286	$ –	$ –
Defined benefit obligation[1]				
Balance, beginning of year	$ 839,589	$ 663,701	$ 196,862	$ 159,331
Current service cost	38,398	29,681	7,460	5,687
Interest cost	48,537	45,129	11,352	10,799
Actuarial losses	64,798	122,384	12,909	24,330
Benefits paid	(22,529)	(24,331)	(4,080)	(3,285)
Transfers	–	3,025	–	–
Balance, end of year	$ 968,793	$ 839,589	$ 224,503	$ 196,862
Funded status – plan surplus (deficit)	$ (80,990)	$ (38,303)	$ (224,503)	$ (196,862)
Impact of surplus derecognition	(8,180)	(29,469)	–	–
Net asset (liability) recognized in the consolidated statement of financial position	$ (89,170)	$ (67,772)	$ (224,503)	$ (196,862)
[1] Estimated defined benefit obligation – end of year with:				
1% increase in healthcare trend rate	n/a	n/a	$ 251,148	$ 220,000
1% decrease in healthcare trend rate	n/a	n/a	$ 201,444	$ 176,460
1% increase in discount rate	$ 814,990	$ 712,729	$ 193,779	$ 167,943
1% decrease in discount rate	$ 1,133,844	$ 995,138	$ 257,063	$ 227,962

The plan assets and defined benefit obligation shown in the table above have been adjusted to reflect the Corporation's 50% recognition of the COPE Plan. Therefore, only 50% of the balances, accruals, asset returns, gains and losses, and cash flows in respect of the COPE Plan have been discussed above.

The pension plans' assets consist of:

	Percentage of Plan Assets		
	December 31, 2011	December 31, 2010	January 1, 2010
Cash and accrued interest	1%	–	–
Equities			
Canadian	28%	30%	27%
Foreign	25%	27%	31%
Fixed income			
Government	29%	27%	24%
Corporate	10%	9%	11%
Mortgages	7%	7%	7%
	100%	100%	100%

Pension plan assets generated a return of 6.3% for the year ended December 31, 2011 (2010 – 10.5%).

At December 31, 2011, the Corporation's pension plans did not hold any of the Corporation's securities or assets (December 31, 2010 – none; January 1, 2010 – none). None of the plans assets were used by the Corporation during the year ended December 31, 2011 (2010 – none).

The breakdown of the defined benefit obligation between funded and unfunded plans is as follows:

($ THOUSANDS)	Pension Plans			Post-Retirement Benefits		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Wholly or partially funded plans	$ 953,586	$ 826,767	$ 653,473	$ –	$ –	$ –
Unfunded plans	15,207	12,822	10,228	224,503	196,862	159,331
Defined benefit obligation	$ 968,793	$ 839,589	$ 663,701	$ 224,503	$ 196,862	$ 159,331

The Corporation's net benefit plan expense for the pension and post-retirement benefits plan is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2011	2010	2011	2010
Current service cost	$ 31,618[1]	$ 24,263[1]	$ 7,460	$ 5,687
Interest cost	48,537	45,129	11,352	10,799
Expected return on plan assets	(61,883)	(53,239)	–	–
Net expense	$ 18,272	$ 16,153	$ 18,812	$ 16,486
Estimated net expense with:				
1% increase in healthcare trend rate			$ 21,386	$ 21,473
1% decrease in healthcare trend rate			$ 16,571	$ 14,722

[1] *net of management and confidential employees' contributions of $6,780 (2010 – $5,418)*

In addition to the expenses noted above, the Corporation contributed $1.0 million in 2011 (2010 – $1.0 million) to the BC Public Service Pension Plan.

The Corporation's net charge to OCI and the accumulated charge to retained earnings is as follows:

($ THOUSANDS)	Pension Plans		Post-Retirement Benefits	
	2011	2010	2011	2010
Actuarial (gain)/loss on assets	$ 11,622	$ (20,272)	$ –	$ –
Actuarial (gain)/loss on liabilities	64,798	122,384	12,909	24,330
Actuarial (gain)/loss on surplus derecognition	(21,289)	(34,365)	–	–
Net charge to retained earnings	$ 55,131	$ 67,747	$ 12,909	$ 24,330
Accumulated charge to retained earnings – beginning of year	67,747	–	24,330	–
Accumulated charge to retained earnings – end of year	$ 122,878	$ 67,747	$ 37,239	$ 24,330

The significant actuarial assumptions adopted in measuring the Corporation's defined benefit obligations are as follows (weighted-average assumptions):

	Pension Plans			Post-Retirement Benefits		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Discount rate	5.20%	5.61%	6.61%	5.20%	5.61%	6.61%
Rate of compensation increase	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Inflation rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

The weighted average expected long-term rate of return used in the calculation of the 2011 pension expense was 7.6% (2010 – 7.5%).

At December 31, 2011, the Medical Services Plan trend rate is assumed to be six per cent per annum for the first eight years, decreasing to three per cent per annum thereafter. At December 31, 2010, the Medical Services Plan trend rate was assumed to be six per cent per annum for the first nine years, decreasing to three per cent per annum thereafter. At January 1, 2010, the Medical Services Plan trend rate was assumed to be six per cent per annum for the first ten years, decreasing to three per cent per annum thereafter.

At December 31, 2011, the extended healthcare trend rate is assumed to be eight per cent per annum for the first year, decreasing linearly over eight years to five per cent per annum thereafter. At December 31, 2010, the extended healthcare trend rate was assumed to be eight per cent per annum for the first two years, decreasing linearly over eight years to five per cent per annum thereafter. At January 1, 2010, the extended healthcare trend rate was assumed to be ten per cent per annum for the first three years, decreasing linearly over eight years to six per cent per annum thereafter.

The development of the Corporation's pension and post-retirement benefits plans may also be summarized as follows:

($ THOUSANDS)	Pension Plans			Post-Retirement Benefits		
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010	January 1, 2010
Fair value of plan assets	$ 887,803	$ 801,286	$ 693,593	$ –	$ –	$ –
Defined benefit obligation	968,793	839,589	663,701	224,503	196,862	159,331
Funded status – plan surplus (deficit)	$ (80,990)	$ (38,303)	$ 29,892	$ (224,503)	$ (196,862)	$ (159,331)

Experience adjustments	2011	2010	2011	2010
Plan assets	$ (11,622)	$ 20,272	n/a	n/a
Plan liabilities	$ –	$ 5,316	$ –	$ 4,589

16. Operating Costs by Nature

($ THOUSANDS)	2011	2010
Operating Costs – by nature		
Premium taxes and commission expense	$ 483,729	$ 471,836
Deferred premium acquisition cost adjustments	59,924	31,180
Employee benefit expense:		
Compensation and other employee benefits	408,282	415,952
Pension and post-retirement benefits (note 15)	38,031	33,714
Professional and other services	36,692	41,643
Road improvements and other traffic safety programs	34,051	35,232
Building operating expenses	32,040	32,194
Office supplies and postage	19,031	18,816
Computer costs	23,054	18,670
Depreciation and amortization	18,161	14,213
Other expenses	6,168	14,582
	$ 1,159,163	$ 1,128,032
Operating Costs – consolidated statement of comprehensive income		
Premium taxes and commissions – insurance	$ 517,361	$ 477,195
Claims services	262,247	269,227
Operating costs – insurance	208,285	211,245
Operating costs – non-insurance	86,400	84,318
Road safety and loss management services	58,578	60,226
Commissions – non-insurance	26,292	25,821
	$ 1,159,163	$ 1,128,032

17. Deferred Premium Acquisition Costs

($ THOUSANDS)	2011	2010
Deferred premium acquisition costs, beginning of year	$ 170,800	$ 199,100
Acquisition costs related to future periods	219,709	210,581
Amortization of prior year acquisition costs	(170,800)	(199,100)
Actuarial valuation adjustment	(99,706)	(39,781)
Deferred premium acquisition costs, end of year	$ 120,003	$ 170,800
Optional	$ 142,238	$ 135,400
Basic	(22,235)	35,400
	$ 120,003	$ 170,800
Deferred premium acquisition costs	$ 120,003	$ 170,800
Prepaid expenses	9,461	13,498
Deferred premium acquisition costs and prepaid expenses	$ 129,464	$ 184,298

The commission and premium tax expenses reflected in the consolidated statement of comprehensive income are as follows:

($ THOUSANDS)	Commissions	Premium Taxes	Total
2011			
Amount payable	$ 328,523	$ 164,333	$ 492,856
Amortization of prior year deferred premium acquisition costs	108,596	62,204	170,800
Deferred premium acquisition costs	(77,643)	(42,360)	(120,003)
Premium taxes, commission expense and deferred premium acquisition costs	$ 359,476	$ 184,177	$ 543,653
Represented as:			
Insurance	$ 333,184	$ 184,177	$ 517,361
Non-insurance	26,292	–	26,292
	$ 359,476	$ 184,177	$ 543,653
2010			
Amount payable	$ 309,698	$ 165,018	$ 474,716
Amortization of prior year deferred premium acquisition costs	126,092	73,008	199,100
Deferred premium acquisition costs	(108,596)	(62,204)	(170,800)
Premium taxes, commission expense and deferred premium acquisition costs	$ 327,194	$ 175,822	$ 503,016
Represented as:			
Insurance	$ 301,373	$ 175,822	$ 477,195
Non-insurance	25,821	–	25,821
	$ 327,194	$ 175,822	$ 503,016

18. Related Party Transactions

ICBC is a wholly-owned Crown corporation of the Province of BC.

All transactions with the Province of BC ministries, agencies and Crown corporations occurred in the normal course of providing insurance, registration and licensing for motor vehicles and are at arm's length, which is representative of fair value unless otherwise disclosed in these notes.

The Corporation acts as agent for the Ministry of Finance regarding the collection of social service taxes and tax on designated property on privately sold used vehicles and motor vehicle related debts, and the collection of the provincial portion of harmonized sales tax on imported vehicles. The Corporation is the sole provider of Basic automobile insurance (note 1) in the province and, therefore, insures, at market rates, vehicles owned or leased by the Province of BC and its controlled entities. As a consequence of these relationships, the Corporation has, at any time, amounts owing to or from various government departments or ministries in the ordinary course of business.

The Corporation is also responsible for collecting and remitting in full to the Province of BC all vehicle-related fees for acquiring and distributing licence plates and decals including permits and other fees and fines. The costs associated with the licensing and compliance activities conducted on behalf of the Province of BC are borne by the Corporation and are included in the consolidated statement of comprehensive income as operating costs – non-insurance.

Excess Optional capital to be transferred to the Province of BC (note 19) at December 31, 2011 totalled $101.4 million which has been accrued as a payable. At December 31, 2010, which was the first year that the Corporation was required to transfer excess Optional capital, excess Optional capital to be transferred to the Province of BC was $575.7 million; of which $300.0 million was advanced earlier during 2010 and the remaining $275.7 million was accrued as a payable at year-end.

The Corporation has defined key management as members of the Board of Directors and management employees at the Vice-President level and above. The compensation for key management is shown below:

($ THOUSANDS)	2011	2010
Key management compensation		
Compensation and other employee benefits	$ 8,319	$ 8,107
Pension and post-retirement benefits	939	878
	$ 9,258	$ 8,985

At December 31, 2011, $1.7 million (December 31, 2010 – $2.3 million; January 1, 2010 – $2.2 million) was payable to key management.

The Corporation contributes to several defined benefit pension and post-retirement plans. Transactions with these entities are disclosed in note 15. During the year ended December 31, 2011, the Corporation paid $2.2 million (2010 – $2.2 million) in administrative expenses and investment management fees on behalf of these plans interest free. In addition, the Corporation provides certain administrative, investment management and office services to the plans at no charge. At December 31, 2011 $6.0 million (December 31, 2010 – $6.0 million; January 1, 2010 – $1.1 million) was payable to these plans for employer contributions.

Other related party transactions have been disclosed elsewhere in the notes to the consolidated financial statements.

19. Capital Management

The Corporation's capital is comprised of retained earnings and other components of equity. The Corporation's objectives for managing capital are to maintain financial strength including the management of ongoing business risks and protect its ability to meet the obligations owed to policyholders and others.

ICBC has set an internal corporate management target for the minimum capital test (MCT) as defined by the Office of the Superintendent of Financial Institutions (OSFI), of a minimum of 175.0% for 2011 (2010 – 170.0%). The MCT utilizes a risk-based formula to assess the solvency of an insurance company by defining the capital available that is required to meet the minimum standards. The Corporation was in compliance with internal management targets throughout 2011. At December 31, 2011, the Corporation's MCT was 189.2% (2010 – 208.8%).

The corporate management target for MCT is comprised of two components being the Basic and Optional insurance business MCT targets. For the Basic insurance business, the British Columbia Government's Special Direction IC2 requires the Corporation, through BCUC oversight, to maintain capital available equal to at least 100% of MCT.

For the Optional insurance business, the *Insurance Corporation Act* requires the Corporation to maintain a management target comprised of the supervisory target as set out in the MCT guideline, and the margin, calculated by the Corporation's actuary and validated by the independent actuary appointed by the Board of the Corporation, that reflects the Corporation's risk profile and its ability to respond to adverse events that arise from those risks, the MCT guideline, and the Guideline on Stress Testing issued by OSFI.

Excess Optional capital at fiscal year-end, net of any deductions approved by the Treasury Board is to be transferred to the Province of BC by July 1 of the following year.

The Corporation has embarked on a business renewal program known as the Transformation Program to address key business issues, including increased customer expectations regarding products, service and price along with replacing aging technology systems. The Transformation Program includes multiple projects to collectively help the Corporation achieve its strategy and future objectives. The funding required for this project is obtained from Optional capital. The Transformation Program reserve represents a component of retained earnings internally set aside for this program. The reserve, net of costs expensed, is a Treasury Board approved deduction from the excess Optional capital transfer and is as follows:

($ THOUSANDS)	2011	2010
Transformation Program Reserve		
Balance, beginning of year	$ 365,225	$ –
Transfer from retained earnings (Optional capital)	–	400,000
Costs including depreciation expensed during the year	(31,645)	(34,775)
Balance, end of year	$ 333,580	$ 365,225

In addition, there were also $35.1 million (December 31, 2010 – $13.2 million; January 1, 2010 – nil) of Transformation Program costs capitalized in property, equipment and intangible assets (notes 10 and 11).

20. Contingent Liabilities and Commitments

a) Structured settlements

Certain injury claims are settled through the use of various structured settlements which require the Corporation to provide the claimant with periodic payments. The Corporation's injury claims are primarily settled through the use of structured settlements.

The Corporation purchases an annuity from an approved life insurance company to make these payments. In the event the life insurance company fails in its obligation, the risk to the Corporation is mitigated as the claimant will continue to receive payments, up to certain limits, from a not-for-profit organization that is funded by the insurance industry and endorsed by the Federal Government. The Corporation is only responsible for making payments for the excess, if any, between the claimant's annuity payments and the payment from the not-for-profit organization. At present, four federally licensed life insurance companies are approved for use by the Corporation. An insurance company is approved based on an ongoing analysis of total assets, credit rating analysis, and past service history. The present value of these structured settlements at December 31, 2011 is approximately $1.10 billion (December 31, 2010 – $1.01 billion; January 1, 2010 – $0.96 billion), which are not recorded in the consolidated financial statements of the Corporation. Management does not believe any provision for credit risk is required in relation to these annuities at December 31, 2011 as all approved life insurance companies are rated investment-grade and are backed by the not-for-profit organization. To date, the Corporation has not experienced any losses resulting from these arrangements.

b) Lease payments

The Corporation has entered into operating leases of certain rental properties for varying terms. The annual rental payments pursuant to these leases over the next five years and beyond and the net present value are as follows:

($ THOUSANDS)	Lease Payments	Net Present Value
Up to 1 year	$ 12,275	$ 11,807
Greater than 1 year, up to 5 years	23,586	21,030
Greater than 5 years	2,544	2,014
	$ 38,405	$ 34,851

The operating lease payments recognized as an expense during the year were $16.5 million (2010 – $15.2 million).

c) Other

The Corporation entered into separate agreements to acquire three investment properties totalling $52.3 million. These acquisitions are expected to settle in 2012. The Corporation also entered into two agreements to provide mortgage funding in 2012 totalling $3.5 million.

In addition, there were two other commitments made. One to acquire $14.9 million of computer software by 2013. The other commitment is for annual telecommunication services until 2021, with a total contract value of $50.6 million.

21. Regulation over Basic Insurance

As discussed in note 1, the Corporation is subject to regulation by BCUC. BCUC has jurisdiction over the Corporation's rates and services for Basic insurance, and responsibility for ensuring that the Basic insurance business does not subsidize the Corporation's Optional insurance business. In addition, BCUC sets rates for Basic insurance that allow it to achieve the regulated capital targets and is responsible for directing ICBC to achieve regulated targets for total Corporation and Optional insurance.

For the regulation of the Corporation's Basic insurance rates, BCUC is required to ensure that the rates are just, reasonable, not unduly discriminatory and not unduly preferential. BCUC is required to fix rates on the basis of accepted actuarial practice, to pay for certain specified costs, to ensure the Corporation maintains the required capital, to ensure rates are not based on age, gender or marital status, and to ensure increases or decreases in rates are phased in, in a stable and predictable manner.

BCUC requires the Corporation to follow the financial allocation methodology it has approved with respect to allocating costs between Basic and Optional insurance business, and non-insurance business.

BCUC initiates regulatory processes on its own initiative or upon application by the Corporation. It uses oral hearing, written hearing, or negotiated settlement processes to review applications and subsequently issue legally binding decisions.

The Corporation is required to incur a portion of BCUC's general operating expenses as well as its costs associated with each ICBC proceeding. BCUC can also order the Corporation to reimburse other proceeding participants for specified costs such as legal and expert witness fees.

Allocation of Basic and Optional amounts

The Corporation operates its business using an integrated business model. Although the majority of premium revenues and costs are specifically identifiable as Basic or Optional (note 1), certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a pro-rata method of allocation has been used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality and any BCUC directives. BCUC directives have been applied on a prospective basis.

Included in Basic are non-insurance costs, as the Corporation is required to provide non-insurance services such as driver and vehicle licensing and vehicle registration.

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2011	2010	2011	2010	2011	2010
Net premiums written	$ 2,053,470	$ 2,070,487	$ 1,639,366	$ 1,608,880	$ 3,692,836	$ 3,679,367
Revenues						
Net premiums earned	$ 2,054,598	$ 2,066,572	$ 1,618,612	$ 1,600,752	$ 3,673,210	$ 3,667,324
Service fees	27,089	29,827	23,263	24,801	50,352	54,628
Total earned revenues	2,081,687	2,096,399	1,641,875	1,625,553	3,723,562	3,721,952
Claims and operating costs						
Provision for claims occurring in the current year (note 12)	1,941,504	1,785,765	938,626	968,312	2,880,130	2,754,077
Change in estimates for losses occurring in prior years (note 12)	(10,364)	(1,385)	(4,028)	(654)	(14,392)	(2,039)
Claim services, road safety and loss management services	211,177	218,692	109,648	110,761	320,825	329,453
	2,142,317	2,003,072	1,044,246	1,078,419	3,186,563	3,081,491
Operating costs – insurance (note 16)	89,504	89,044	118,781	122,201	208,285	211,245
Premium taxes and commissions – insurance (note 17)	203,782	171,203	313,579	305,992	517,361	477,195
	2,435,603	2,263,319	1,476,606	1,506,612	3,912,209	3,769,931
Underwriting (loss) income	(353,916)	(166,920)	165,269	118,941	(188,647)	(47,979)
Investment income (note 9)	278,428	332,834	163,052	197,485	441,480	530,319
(Loss) income – insurance operations	(75,488)	165,914	328,321	316,426	252,833	482,340
Loss – non-insurance operations	(112,692)	(110,139)	–	–	(112,692)	(110,139)
Net (loss) income for the year	$ (188,180)	$ 55,775	$ 328,321	$ 316,426	$ 140,141	$ 372,201
Equity						
Retained earnings, beginning of year	$ 1,180,218	$ 1,183,096	$ 1,503,146	$ 1,795,856	$ 2,683,364	$ 2,978,952
Net (loss) income for the year	(188,180)	55,775	328,321	316,426	140,141	372,201
Excess Optional capital transfer to Province of BC (note 18 and 19)	–	–	(101,386)	(575,712)	(101,386)	(575,712)
Pension and post-retirement benefits actuarial loss	(43,137)	(58,653)	(24,903)	(33,424)	(68,040)	(92,077)
Retained earnings, end of year	948,901	1,180,218	1,705,178	1,503,146	2,654,079	2,683,364
Other components of equity	180,780	334,240	91,615	181,483	272,395	515,723
Total equity	$ 1,129,681	$ 1,514,458	$ 1,796,793	$ 1,684,629	$ 2,926,474	$ 3,199,087

($ THOUSANDS)	Basic Coverage		Optional Coverage		Total	
	2011	2010	2011	2010	2011	2010
Liabilities						
Unearned premiums	$ 971,990	$ 973,119	$ 790,636	$ 769,882	$ 1,762,626	$ 1,743,001
Provision for unpaid claims (note 12)	$ 4,823,481	$ 4,578,991	$ 1,669,238	$ 1,604,016	$ 6,492,719	$ 6,183,007

22. Role of the Actuary and Auditor

The responsibility of the Board appointed actuary is to carry out an annual valuation of the Corporation's policy liabilities which include provisions for claims and claims expenses, unearned premiums and deferred premium acquisition costs in accordance with accepted actuarial practice and regulatory requirements, and report thereon. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, reinsurance recoveries, and expenses taking into consideration the circumstances of the Corporation and the insurance policies in force. The actuary, in his verification of the underlying data used in the valuation, also makes use of the work of the independent auditor. The actuary's report outlines the scope of his work and opinion.

The independent auditor has been appointed by the Board of Directors. The auditor's responsibility is to conduct an independent and objective audit of the consolidated financial statements in accordance with generally accepted auditing standards and report thereon. In carrying out the audit, the auditor considers the work of the actuary when considering the provision for claims and claims expenses, unearned premiums, and deferred premium acquisition costs. The auditor's report outlines the scope of the audit and related opinion.

corporate governance

Governance defines the roles, relationships, powers and accountability among shareholders, the Board of Directors and management. Governance of a Crown corporation also requires that responsibility be clearly articulated for meeting public policy objectives.

ICBC's relationship to government

At the highest level, governance of a Crown corporation is defined through legislation applicable to all Crown corporations, such as the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, the *Financial Information Act*, and the *Freedom of Information and Protection of Privacy Act*. Under these provincial laws, ICBC is accountable for making public our strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report), as well as providing financial and other information as the legislation requires.

Individual Crown entities are governed by legislation specific to each Crown corporation. The specific legislation to which ICBC must adhere includes:

- the *Insurance Corporation Act*,
- the *Insurance (Vehicle) Act*,
- the *Motor Vehicle Act*,
- the *Motor Vehicle (All Terrain) Act*,
- the *Commercial Transport Act*,
- the *Family Maintenance Enforcement Act*,
- the *Social Service Tax Act*, and
- the *Offence Act*.

ICBC was created under the *Insurance Corporation Act*. This legislation was amended in 2003 to establish the BCUC as the independent regulator for Basic insurance rates. As ICBC is the sole provider of Basic insurance in BC, this regulatory environment is important, providing customers with an independent and transparent review of our Basic insurance operations and an opportunity to be involved in the review. The non-insurance services we provide on behalf of the provincial government are set out in a Service Agreement between ICBC and the Province and are funded by Basic insurance premiums.

Individual Crown entities are also governed by the Shareholder's Letter of Expectations established between each Crown corporation and the minister responsible. The Shareholder's Letter of Expectations is an agreement on the respective roles and responsibilities of the provincial government and the corporation. It outlines high-level performance and reporting expectations, public policy issues and strategic priorities, as well as providing direction specific to ICBC in several key areas.

As demonstrated through the results reported in ICBC's 2011 Annual Report, ICBC has complied with the performance expectations outlined in our 2011 Shareholder's Letter of Expectations. This includes the specific items outlined on the following page.

shareholder's letter of expectations	ICBC alignment
climate change	
• Contribute to the BC Provincial Government's climate action objectives and comply with the requirement to be carbon neutral in accordance with the *Greenhouse Gas Reduction Targets Act*.	• ICBC established the 2007 baseline of the company's environmental footprint and implemented government's SMARTTOOL to track and report on the company's greenhouse gas emissions. • ICBC has met the requirement to be carbon neutral by 2010. • ICBC continues to implement initiatives to reduce our carbon footprint, e.g., continuing energy retrofits, further switch to 100% recycled office paper, building the new Driver Licensing Centre to LEED Gold standards, and a 10 month internal "Curb the Carbon" campaign to encourage employees to help reduce greenhouse gas emissions. • ICBC has sponsored campaigns that help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions, and improve road safety.
capital management frameworks	
• Comply with revised capital management frameworks for Basic and Optional insurance established by the Shareholder.	• ICBC is complying with the revised capital management frameworks for Basic and Optional insurance.
transformation program	
• Invest in ICBC's systems and processes as part of a Transformation Program to meet increasing customer expectations, better ensure the reliability of systems and improve options for customers, and implement more streamlined processes for employees that will improve customer service.	• ICBC has begun its multi-year Transformation Program, and is on track with projects that will collectively help ICBC improve services and options for customers and will provide employees with the tools they need to be successful and to better meet customer expectations.
road safety laws	
• Support implementation of government's new road safety legislation and regulations including new impaired driving and motorcycle safety laws.	• ICBC works with government and stakeholders to implement road safety initiatives and supports these initiatives through public education and awareness strategies.
other initiatives	
• Ensure the Shareholder is advised in advance of the release of information requests under the *Freedom of Information and Protection of Privacy Act*. • Comply with the international Payment Card (PCI) Data Security Standards. • Continue to support government's policy objectives with respect to off-road vehicles, identity management, climate action, updating the *Family Compensation Act*, and other road safety initiatives.	• ICBC works with the Government of British Columbia through a process for *Freedom of Information and Protection of Privacy Act* requests that meets Government needs and does not delay response times. • ICBC is fully compliant with the international Payment Card (PCI) Data Security Standards. • ICBC is working with government to support government's policy objectives.
administration of government initiatives	
• Work with the Shareholder to prepare an annual plan for all ICBC projects that support government initiatives for approval by Treasury Board.	• ICBC is working with the provincial government to establish an annual planning process for ICBC projects that are implemented in support of government initiatives.
governance and administrative framework	
• Ensure that corporate priorities reflect government's goals. • Comply with the Shareholder's requirements for Crown corporations, including reporting and information-sharing, Board appointment processes, *Public Sector Employers Act* and related requirements, rules related to lobbyists, etc.	• ICBC continues to align corporate priorities with government's goals. • ICBC continues to comply with the Government of British Columbia's guidelines and directions for Crown corporations.

The 2012 Government Letter of Expectations (formerly the Shareholder's Letter of Expectations) is posted on our website at icbc.com. It continues ICBC's mandate to provide Basic and Optional auto insurance in an integrated manner with rates that are not based on age, gender or marital status, and to provide vehicle registration and licensing, driver licensing, violation ticket administration and government fine collection services on behalf of the provincial government. It continues many of the expectations from the 2011 Shareholder's Letter of Expectations and, for 2012, there is an increased emphasis that the operations of ICBC be done as efficiently as possible, in order to ensure families are provided with services at the lowest cost possible; that ICBC will conduct province-wide public engagement to gather input on a range of options for future Basic risk-sharing rate changes; and, to the greatest extent possible, ICBC should participate in the Government's open data and public engagement opportunities.

ICBC board governance

The Board of Directors guides ICBC in fulfilling its mandate and sets our corporate direction. The Board and management approve our vision, mission, and values that guide us. The Board sets overall corporate strategy, our goal and the objectives and strategies upon which accountability and performance are evaluated. Performance is reviewed and reported regularly.

As a Crown corporation, ICBC's Board members are appointed by the Lieutenant Governor-in-Council. The Board of Directors consists of members with a broad range of expertise and experience. The individual members each play an important role and also contribute as members of committees of the Board. The chart on page 95 shows ICBC's Board of Directors and its committees, members and mandates.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the Board Governance Manual, which is updated annually by the Governance Committee. ICBC's Board complies with the provincial government "Board Resourcing and Development Office Guidelines" and has adopted the guiding principles of the "Governance Framework for Crown Corporations: Best Practices Governance and Disclosure Guidelines". Additional information is available on our website at icbc.com.

ICBC's Board of Directors has adopted the guiding principles included in the provincial government "Governance Framework for Crown Corporations". These principles provide an understanding of the roles and responsibilities for all parties that are part of the Crown corporation governance environment:

- Stewardship, leadership and effective functioning of the Board
- Clarity of roles and responsibilities
- Openness, trust and transparency
- Service and corporate citizenship
- Accountability and performance
- Value, innovation and continuous improvement

ICBC board of directors and executives

Steve Crombie, T. Michael Porter, Catherine Aczel Boivie, Craig Horton, Stacy Shields, Ronald Olynyk, Ward Chapin, Jatinder Rai, Maureen Howe, William Davidson

Len Posyniak, Byron Horner, Betty Weigel, Jon Schubert, Geri Prior, Fred Hess, Doug Horswill, Donnie Wing, Sheila Eddin, Jeff Schulz, Mark Blucher

Jon Schubert, President & Chief Executive Officer
Mark Blucher, Senior Vice-President, Insurance
Ward Chapin, Chief Information Officer
Steve Crombie, Vice-President, Corporate Communications & Stakeholder Engagement
Sheila Eddin, Chief Business Transformation Officer
Fred Hess, Vice-President, Driver Licensing
Craig Horton, Senior Vice-President, Claims
Len Posyniak, Vice-President, Human Resources
Geri Prior, Chief Financial Officer
Jeff Schulz, Chief Customer & Marketing Officer
Betty Weigel, Corporate Secretary
Donnie Wing, Senior Vice-President, Corporate Affairs

Board Members
Catherine Aczel Boivie
William Davidson
Byron Horner
Doug Horswill
Maureen Howe
Ronald Olynyk
T. Michael Porter
Jatinder Rai
Stacy Shields

board governance structure

board of directors

mandate: To foster the corporation's short and long-term success consistent with the Board's responsibilities to the people of British Columbia as represented by the Government of British Columbia.

chair: Vacant

vice-chair: T. Michael Porter

members: Catherine Aczel Boivie, William Davidson, Byron Horner, Doug Horswill, Maureen Howe, Ronald Olynyk, Jatinder Rai, Stacy Shields

executive team

mandate: The primary role of the Executive Team is to lead the management of ICBC's business and affairs, and to lead the implementation of the plans and policies approved by the Board of Directors (Board) of ICBC.

president and CEO: Jon Schubert

members:

Mark Blucher, Senior Vice-President, Insurance

Ward Chapin, Chief Information Officer

Steve Crombie, Vice-President, Corporate Communications & Stakeholder Engagement

Sheila Eddin, Chief Business Transformation Officer

Fred Hess, Vice-President, Driver Licensing

Craig Horton, Senior Vice-President, Claims

Len Posyniak, Vice-President, Human Resources

Geri Prior, Chief Financial Officer

Jeff Schulz, Chief Customer & Marketing Officer

Betty Weigel, Corporate Secretary

Donnie Wing, Senior Vice-President, Corporate Affairs

governance committee

purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.

chair: Jatinder Rai

members: Catherine Aczel Boivie, Doug Horswill

audit committee

purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing: (i) financial information; (ii) systems of internal controls and risk management; and (iii) all audit processes.

chair: T. Michael Porter

members: William Davidson, Ronald Olynyk, Stacy Shields

investment committee

purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.

chair: William Davidson

members: Byron Horner, Maureen Howe

human resources and compensation committee

purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policies.

chair: Stacy Shields

members: Doug Horswill, Maureen Howe, Jatinder Rai

transformation program committee

purpose: To assist the Board in overseeing the management of ICBC's business renewal efforts.

chair: T. Michael Porter

members: Catherine Aczel Boivie, Byron Horner, Ronald Olynyk

head office

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Additional information about ICBC and electronic copies of this report are available at **icbc.com**

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